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The state, capital and urban restructuring in post-reform Shanghai

Fu, Zhengji

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The State, Capital and Urban Restructuring in Post-Reform Shanghai

Zhengji Fu

A thesis submitted to the University of London in accordance with the
requirements of the degree of Doctor of Philosophy in King's College
London, Department of Geography

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List of Abbreviations

CCP -- Chinese Communist Party
CEOs -- Collectively Owned Enterprises
CPC -- Central Planning Commission
FDI -- Foreign Direct Investment
FFE -- Foreign Funded Enterprises
MOF -- Ministry of Finance
LCFD -- Lujiazui Central Finance District
NIDL -- New International Division of Labour
PNAA -- Pudong New Area Administration
RRS -- revenue-sharing system
SEYEPA -- Shanghai Economic Yearbook Editorial and Publishing Agency
SEZs -- Special Economic Zones
SFIC -- Shanghai Foreign Investment Commission
SLDC -- Shanghai Lujiazui Finance and Trade Development (Group) Co., Ltd.
SMC -- Shanghai Municipal Council of the International Settlement
SMG -- Shanghai Municipal Government
SOEs -- State Owned Enterprises
SSB -- Shanghai Statistical Bureau
SYC -- Statistical Yearbook of China
SYG -- Statistical Yearbook of Guangdong
SYS -- Statistical Yearbook of Shanghai
TSS -- tax-sharing system
TNCs -- Transnational Corporations
WTO -- World Trade Organisation

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Chapter 1

INTRODUCTION

1.1 Introduction

The initial idea behind this research can be traced back to the early 1990s. In 1993-1996, I was working as a public servant in The Economic and Trade Bureau of Shanghai Pudong New Area. Pudong was then China's hottest spot. Launched by the Chinese government on 18 April 1990, the development of Pudong was regarded as another strategic move of the Chinese government after the opening-up of southern China. It was officially designated as "the focus of Chinese reform and open-door policy in 1990s" and "the dragon head of the Yangzi River Basin" at the 14th Chinese Communist Party Congress held in October 1992. By the time that a new local authority – the Pudong New Area Administration (PNAA) was established in January 1993, Pudong had entered the take-off period. My Bureau, a department of the PNAA that is in charge of the foreign direct investment (FDI), was packed everyday by investors from Hong Kong, Taiwan and other countries consulting the preferential investment policies recently announced by the central government.

My office, close to the newly completed TV tower called Oriental Pearl, was located in Lujiazui Central Finance District (LCFD) – Shanghai's future financial centre. Directly opposite the Bund across the Huangpu River, LCFD was the pet project of Shanghai Municipal Government (SMG) and the showcase of the whole Pudong project. One after another grey, 70s-style buildings were bulldozed and the height of the new modern (or postmodern?) skyscrapers was increasing day by day. Watching this astonishing urban redevelopment unfolding before my eye everyday, I was amazed and one question puzzled me: "what are the forces underpinning Shanghai's rapid urban restructuring of which the LCFD is the most illustrative case?"

My first thought was of the state. Growing up in socialist China, I could not help attributing the cause of Shanghai's urban change to the state. The history-making

reform policies introduced by the Chinese government in the late 1978 were intended to reform a society where the role of the state was “monolithic” (Solinger, 1992), and where the state was the owner of the means of production, the organiser of production and reproduction, and the initiator and regulator of any public policy. Without a “first-push” from the central state, or more precisely, without a change of party line in the first place, any change in the urban patterning of Shanghai, a city viewed as a model of the socialist cities and tightly supervised by the central government for three decades, would be incredible. The development of Pudong and the revitalisation of Shanghai in the 1990s were the direct result of the political decisions of the central government that tried to push northwards the wave of economic reform from southern China by remaking Shanghai into a world-class city.

My second thought was of international capital. Most of the buildings in the LCFD were designed, developed and financed, and will be managed and occupied by multinational companies. China as a whole had been the second largest FDI recipient after the USA since 1994. In 1994, China received US\$ 82.7 billion which accounted for 17% of global FDI, of which Shanghai accounted for 12.1% (Nyaw, 1996; SSB, 1995). That meant Shanghai took around 2.1% of the global FDI in 1994. How can one understand the changes of a city which accounted for 2.1% of the global FDI while ignoring the effects of international capital?

The first thought represented a view held by most Chinese urban researchers, that is, an approach from within – an academic tradition inherited from the pre-reform era when China was isolated from the outside and urban changes in China were wholly internally induced. With the progress of China’s reform, an increasing number of scholars both in Chinese and English literature have started to look at Chinese urban changes from without, i. e., to understand urban changes in some Chinese cities in a global context (Chu, 1996; Eng, 1997; Fung *et al*, 1992; Ning, 1991; Olds, 1995a, 1995b, 1998; Sit and Yang, 1997; Wu, 1997; Xin, 1996; Xu, 1993, 1994; Yao, 1993, 1995, 1997; Yeh and Xu, 1996). Research by Eng (1997) and Sit and Yang (1997) illustrated the rise of foreign-investment-induced exo-urbanisation in China’s Pearl River Delta. Olds’ (1995a) research was probably the first to attempt to link directly the development of Pudong to the processes of globalisation. He saw the development of Pudong as one of urban mega-projects that were underlain by the

complex and increasingly global processes that were mediated and funnelled by Hannerz's (1992) four socially constructed "organisational frameworks": the form of life, the state, the market and social movements.

However, to see Shanghai's urban transformation as simply the outcome of globalisation is to ignore such decisive internal factors as the state. This is particularly so when we take into account the fact that China had been isolated from outside for 30 years and reform-induced integration into the world economy has been a gradual government-led process. Even for countries that have been fully geared with the world economy, the key interactions in the global-local nexus remain at the level of the TNC and the nation-state (Dicken, 1994). The recent development of China's accession to the World Trade Organisation (WTO) serves as an excellent case to show the continuing importance of the nation-state in an increasingly globalised world.

Box 1.1 - The Main Content of the China-US Trade Deal

- China will cut tariffs by an average of 23%.
 - Foreign companies will be able to own up to 49% of all telecommunications service ventures once China becomes a member of the WTO, and 50% two years later.
 - Foreign banks can offer services in local currency to Chinese enterprises, two years after joining the WTO, and to Chinese citizens, five years after joining.
 - Foreign firms can have a stake of up to 33% in securities fund management joint ventures, rising to 49% three years after China joins the WTO.
- (*Guardian* 1999, "China agrees to free trade", 16 November, P. 2)

On 15 November 1999, the signing of a trade agreement between China and the USA hit the headlines in the world press. The deal, thrashed out after 13 years of difficult negotiations, paved the way for China's membership of the WTO, the Geneva-based body which polices the global trading system. The inclusion of China in the WTO has been claimed as "the most important victory for capitalism since the collapse of the Berlin Wall; it is the crowning jewel in the process of globalisation" (Will Hutton, 28 May 2000, *The Observer*). However, a glance at the main contents of the deal shows vividly the interaction of nation-states and global capital in today's world (see Box 1.1). Although the Chinese state has made huge concessions, it is struggling to

control the extent and pace of integration of China's economy into the world economy.

That I emphasise the continuing significance of the nation-state as a major influence in the global economy does not mean, of course, that the role and functions of the state have not changed. In fact, the process of globalisation has increasingly given capital the upper hand in the history of capital-state relationship. The fact that localities are competing for ever-increasingly-mobile capital means that capital can take advantage of its increased geographical mobility to get more concessions from the local (Peterson, 1981; Gottdiener, 1986; Logan and Molotch, 1987). The recent case of the site selection of the Disney Theme Park in China demonstrated how favourable the position of international capital is in its negotiation with local authorities.

The Disney Group wanted to have a theme park in China – the third one outside America after France and Japan. The proposal stirred up fierce competition among Chinese cities, particularly between Shanghai and Hong Kong, which were attracted by the promising prospects that the project will bring in: thousands of jobs, droves of tourists, and strategic promotion of the city image, and ultimately more economic growth. After years of bargaining, Hong Kong finally won the project in November 1999, but at a huge cost: the Hong Kong government agreed to pump HK\$ 22.45 billion (approximately US\$ 2.9 billion) into the project, most of which will be invested in the building infrastructure such as highway and piers, while the Disney company will invest HK\$ 2.45 billion – only about one-tenth of investment pledged by Hong Kong government (*Asia Weekly*^{*}, 14 November 1999).

The result, however, did not put Shanghai off its dream of hosting a Disney Theme Park. A working team was set up to continue negotiations with the Disney Group over the possibility of building a Disney Theme Park in Pudong. The officer who was in charge of the working team told me: "There can be more than one Disney Theme Park in a country as big as China. We are confident. After all, Shanghai is at

^{*} A Hong Kong based Chinese news weekly.

the centre of China's richest region with a population of 200 million." (my interview in 2000).

In sum, it seems that the complex configuration of variables which collectively determine Shanghai's urban structure can be eventually attributed to two key factors: state and capital, and that the interaction between the two is crucial to understand Shanghai's urban change. In other words, Shanghai's urban restructuring is seen as neither internally induced as it was in the pre-reform era nor solely externally produced by international capital, but the outcome of the interaction of the global and the local, and of the interaction of the state (national and local) and capital. While acknowledging that the state, both in the central and local level, still controls the urbanisation processes, the thesis tries to explore how the mechanisms of Shanghai's urban development have been changed by market-oriented reform as well as the introduction of international capital since 1978, and how the three main actors, namely, central government, municipal government and international capital have changed their roles in the shaping of urban patterns. It is argued that China's peculiar "half-way house" situation, which stems from China's asymmetrical reform, gave rise to an implicit but extraordinary strong pro-growth coalition between local government and international capital in the process of urban redevelopment. It is this coalition that has been rapidly and relentlessly reshaping Shanghai's urban patterns.

1.2 Research questions

The dissertation analyses Shanghai's urban development in general, and post-reform urban restructuring in particular, from the viewpoint of state-capital relationships. Two dimensions of inquiry are involved. One is the historical dimension where Shanghai's urban development is traced back to the 1840s. By analysing a variety of political economies that Shanghai has experienced, this dimension of inquiry tries to answer a critical question: "why is the state-capital relationship the most appropriate approach to the understanding of Shanghai's urban development?" The other dimension of inquiry focuses on Shanghai's urban restructuring since the Chinese government adopted its reform policy in late 1978. The three key questions to be

addressed here are: 1)“how did the new relationship of the state and capital emerge?”; 2)“how did this relationship transform the dynamics of Shanghai’s urban development?”; and 3)“how does this relationship manifest itself in the concrete process of urban restructuring?” Apart from the overall analysis of Shanghai’s urban restructuring brought in by this new state-capital relation, the last question is also discussed through the case study of the Lujiazui Central Finance District (LCFD). By analysing the LCFD, the thesis argues that the state-capital relationship can be seen in terms of a specific form of pro-growth coalition in the hundreds of urban redevelopment projects scattered across Shanghai. Those key questions are elaborated as following:

1. Why is the state-capital relationship the most appropriate approach to the understanding of Shanghai’s urban development? Answering this question entails:
 - a) theoretical analysis of the importance of the state and capital in urban change;
 - b) critical review of different approaches to the understanding of urban development;
 - c) identification of the key relationships between the state and capital and their defining impacts in different periods of Shanghai’s urban development.
2. How has the emergence of the new relationship between the state and capital transformed the dynamic of Shanghai’s urban development in the post-reform era? Answering this question involves:
 - a) identifying the pre-reform dynamics of Shanghai’s urban development;
 - b) analysing the redefinition of the Chinese state rendered by the market-oriented reforms;
 - c) identifying the post-reform dynamics of Shanghai’s urban development.
3. What aspects of Shanghai have been restructured since the new urban development dynamics was brought in by the Chinese reforms? The thesis tries to answer this question in terms of three interrelated aspects:
 - a) the economic base;
 - b) the social structure;
 - and c) spatial morphology.
4. How does the new state-capital relationship manifest itself in the concrete process of Shanghai’s urban redevelopment? Addressing this question entails attempting to understand:
 - a) the changing role of the central state in Shanghai’s

urban development; b) the changing behaviour pattern of the SMG induced by devolution as well as the competition for external capital; c) the importance of Shanghai in Transnational Corporations' strategies of entering Chinese markets; d) the convergence of interests of the SMG and foreign investors in Shanghai's urban redevelopment.

1.3 Methodology

The thesis seeks to establish an explanation of Shanghai's urban change by focusing on the development of the underpinning relationship between the state and capital. Although the thesis focuses on the post-reform era, the key relationship of the state and capital is traced back historically to the beginning of modern Shanghai in the 19th century. The analysis of Shanghai's current urban restructuring also involves three broad areas: its economic base, its social structure and its spatial organisation. Key questions involved in the thesis are not only those of "how many" and "what" which demand quantitative methods, but also those of "how" and "why" where qualitative methods are needed. Throughout the research process, therefore, a methodology that involved four research methods was adopted. These four methods are historical analysis, quantitative research, qualitative research and case study.

1.3.1 Historical analysis

Historical analysis is very important in the thesis both methodologically and epistemologically. It is essential for establishing the historical context of Shanghai's current urban restructuring. As well as providing the historical context, historical analysis is pivotal in explaining why the state-capital relationship approach is the most appropriate in understanding Shanghai's urban development. The historical account of Shanghai's unique urban development path from colonialism to capitalism (Chapter 4) to socialism (Chapter 5) to post-socialism (Chapter 6, 7, 8) is intended to show that two underlying factors – state activities and capital dynamics have been inextricably interrelated in shaping Shanghai's urban patterns for more than a century, and the interaction of the state and capital and the result of this interaction – the state-capital relationship provides an excellent perspective through which Shanghai's

urban change in whichever historical period can be understood properly. Historical research is conducted by using existing literature and some statistical sources, particularly on the historical development of Shanghai both pre-socialism, under socialism and post socialism.

1.3.2 Quantitative research

The general aim of the quantitative components of the research is to address the empirical validity of the conceptual inferences that have been drawn from the theoretical discussion and historical analysis. In other words, the quantitative research is aimed to provide the empirical evidences for the theoretical argument -- the new state-capital relationship brought in by China's reform and open-door policies has been underlying Shanghai's urban restructuring in the post-reform era. Shanghai's urban restructuring is examined from three aspects -- that of the economic base, spatial morphology and social structure, and as such empirical evidence is needed in these three areas.

For this purpose three main sources of quantitative data were targeted. Firstly, secondary data were extracted and analysed from statistical yearbooks in Shanghai Library and official reports from local governments. Three types of statistical yearbooks are the main sources for secondary data: (1) *Statistical Yearbook of Shanghai* -- the official statistical yearbook which has been available since 1978; (2) *Shanghai Economic Yearbook* -- the semi-official yearbook edited by Shanghai Social Science Academy which provides an analysis of Shanghai's socio-economic development every year; (3) *Shanghai Real Estate Market* -- a yearbook on Shanghai's land market and real estate development which has been edited by the Shanghai Statistical Bureau since 1992. Other statistical yearbooks such as *Statistical Yearbook of Shanghai Foreign Relations and Trade*, *Statistical Yearbook of China* and *Statistical Yearbook of Guangdong* also provide necessary data. My former Bureau -- The Economic and Trade Bureau of Pudong New Area has been the base to obtain official documents and reports (some regular and some not) on the development of Pudong and Shanghai as a whole including those from other governmental departments and those from the Bureau itself.

Secondly, in three research areas, surveys done by other researchers are adopted in the thesis. These surveys are used because there are no official statistics available and the surveys needed were beyond my own reach in terms of financial cost and time required for the survey. These three areas are as following:

The motivation of foreign investors in Shanghai: The survey conducted by Nyaw Mee-Kau in late 1994 is employed. The survey was conducted using interviews and a questionnaire that was sent to 200 foreign-funded enterprises selected randomly from the list of firms compiled by the Shanghai Foreign Investment Commission (SFIC) (For detail about the survey, see Nyaw, 1996: 250-272). The survey is used in Chapter 8 to validate the widely expected result that the huge market potential in China is the primary motivation behind foreign direct investment in Shanghai.

The floating population (domestic migrants) in Shanghai: The Shanghai Municipal Government has so far conducted six surveys on the floating population and the last one was conducted in September 1997. Because the floating population is excluded from the official statistics which only collects data on the officially registered local residents, surveys done by the SMG provide valuable information on the floating population of over 2 millions in Shanghai.

Growing income inequality and its sources: No survey has been specially done on Shanghai. Instead, surveys done by the Chinese Academy of Social Sciences in 1988 and 1995 on urban income distribution in China are used. An extensive survey of 20,000 urban and rural households was conducted in 1988 under the sponsorship of the Ford Foundation, and another survey, this time of 15,000 households, was carried out in 1995 with the support of the Ford Foundation and the Asia Development Bank (For detail, see Zhang, 1997). These two surveys show that market-oriented reforms have been the driving force for growing income inequality in urban China.

Finally, during my fieldwork in 1999 and 2000, primary data was collected on four main areas: (1) the investment of the Fortune-Listed World's Largest Corporations (FLWLCs) in Pudong, (2) the relocation of existing enterprises in the LCFD, (3) the developers and designers of high-rise buildings in the LCFD; and (4) the occupants of the Jin Mao Building.

The research on the investment of FLWLCs in Pudong aimed to establish a clear and concrete profile of FDI in Shanghai: their parent companies, the timing of investment, investment structures and so on (Chapter 7). In China, foreign companies have to submit a series of documents such as a project proposal and a signed contract for a joint-venture to the governmental department concerned for approval, before they can set up a joint-venture or a wholly foreign owned enterprise. In Pudong, my former Bureau is the one in charge of FDI, and files of all Foreign Funded Enterprises in Pudong including those approved by the Bureau and those by the Shanghai Foreign Investment Commission and by the central government* are kept in the Bureau's data base. My former position helped me to get access to these data. Given the fact that 86% of the total investment by FLWLCs in Shanghai was invested in Pudong, an analysis of the investment of FLWLCs in Pudong would be very illustrative of the picture in Shanghai as a whole.

The relocation of existing occupants is one of the most complicated jobs involved in the development of LCFD. One major reason why Shanghai's urban redevelopment can be carried out so quickly is the quick relocation of existing occupants. Directly or indirectly, the relocation involved in Shanghai's urban redevelopment has been carried out by the local government. The list of the "big ten" existing occupants in the LCFD (Chapter 8) is intended to show how complicated the job of relocation is, and how the local government handles the relocation. The list was collected from files kept by the Shanghai Pudong Urban Construction and Development Co. Ltd. which is in charge of the relocation in LCFD on a daily basis.

With the relocation of existing occupants, skyscrapers have sprung up. By the time of my last fieldwork in summer 2000, eighteen high-rise buildings had been completed and another 13 buildings were under construction. A list of these 31 buildings including their developers, designers, usage, selling prices and so on were collected from the Shanghai Lujiazui Finance and Trade Zone Development (Group) Co. Ltd.

* The power of approval is still a major way whereby the central government controls the local economy. With regards to FDI, the Pudong government has the privilege of same approval power as the SMG, that is, it can approve projects with an investment of US\$ 30 million or less. Projects with the investment over US\$ 30 million have to be submitted to the central government for approval.

(SLDC) – the company that was set up by the SMG to manage the land leasing in the LCFD. My former boss -- Director of the Economic and Trade Bureau of Shanghai Pudong New Area -- Kang Huijun was appointed as the General Manager of the SLDC in 1998. With his help, I got the access to many files including project proposals, introduction brochures of most of the buildings and site maps that were kept in the company's archive office.

The list of occupants in the Jin Mao Building was collected from the Jin Mao Property Management Co. Ltd. which runs the building. The 88-storey Jin Mao Building, designed by the Skidmore, Owing&Merrill LLP (an American architect), is the tallest building in China. The list aims to show what kind of companies had moved into the LCFD.

1.3.3 Qualitative research

Qualitative research is intended to explore the ways in which the relationships between state and capital were established and dynamised in the concrete process of Shanghai's urban redevelopment. In other words, qualitative research is employed to address the "how" question. Interviews are adopted as the main method to find out the specific patterns of engagements between the SMG and foreign investors.

Interviews were conducted during my four periods of fieldwork in Shanghai. The preliminary fieldwork was carried out in August and September of 1998. This was mainly concerned with my theoretical framework which I developed in my first year in King's College London. Informal, open-ended interviews were conducted, mainly with academics and local government officials, in an attempt to find out their views on the role of the state and capital in Shanghai's urban development.

The second period of fieldwork was conducted for three months from June to October 1999. The collection of data and first hand resources was mainly done during this fieldwork. The fieldwork was concentrated on the LCFD, and mainly involved the collection of official documents and progress reports about the LCFD, and a series of interviews. The open-ended interviews were designed to find out the processes whereby the project was carried out, and particularly the interaction

between the local authority and international investors. The would-be world tallest (World Financial Centre) building project in LCFD was chosen to show the whole process: from negotiation to the land clearance, which spanned the period from 1993-1995. Interviews were conducted with (all names of people I interviewed are listed in the Appendix 1 except those who wanted to remain anonymous):

- government officials at the SMG and PNAA, mainly those in planning, land development and economic development offices.
- managers concerned in Shanghai Lujiazui Development (Group) Co. LTD – the company set up by the SMG in charge of land development of the LCFD.
- major developers (foreign and Chinese) in the LCFD.
- academics in universities and research institutes who are conducting research in this area.

The interviews mainly involved the following issues:

- the process of power devolution from the central government to the municipal government, from the city to the sub-city government concerning urban development since 1978.
- the process of the development of Pudong and LCFD since 1990, particularly the influx of FDI in Pudong and LCFD.
- the development of the World Financial Centre project in the LCFD, particularly the successive concessions made by the SMG in the negotiation and the relocation of existing occupants.
- preferential policies given by the central government to the development of Pudong, and the effectiveness of these policies in attracting FDI.
- the competition between Shanghai and other Chinese cities for the inflow of FDI, and Shanghai's advantages and disadvantages in the competition.

The third period of fieldwork took place in July and August of 2000. Apart from data that was not collected in the previous fieldwork, this fieldwork focused on the nature of FDI in Shanghai and Pudong in particular. In order to establish a clear profile of FDI, a complete list of investment of 98 Fortune-listed World Largest Corporations

with a total of 181 projects in Pudong was collected. Accounts of some of the mega-projects with the total investment over US\$ 1 billion such as Shanghai General Motors were obtained through interviews with the local officials. Materials about the further progress made in the development of the LCFD was also collected.

Interviews focusing on the interaction between the local state and international investors were mainly conducted in the last period of fieldwork that took place in the second half of 2001. While some of state representatives (government officials) were involved, most interviews were conducted with the representatives of foreign investors. The Shanghai Pudong New Area Association of Enterprises With Foreign Investment (PAEFI) helped me in choosing the interviewees. The PAEFI is a semi-official organisation led by The Economic and Trade Bureau of Shanghai Pudong New Area. As the only organisation of its kind allowed by the government, the PAEFI, though not independent from the government, has had over 3000 foreign-funded enterprises registered as its members. One of my former colleagues, Pan Ruihua, as the Deputy Secretary General of the PAEFI, was in charge of the PAEFI's day to day management.

From PAEFI's database of membership, Pan helped me to choose a sample of representatives of major overseas investors, based on country of origin, industry, investment and availability. As overseas investments in Shanghai were mainly originated from Hong Kong, America, Japan, West Europe and Taiwan, we chose four FFEs from each of these five countries/regions. As a result, a total of twenty FFEs were chose, to which my letters asking for interview and the outline of interview both in English and Chinese were sent (see Appendix 2 for the detail). Of these 20 FFEs, nine agreed to be interviewed. Interviews with representatives of 7 FFEs were conducted and the other 2 FFEs were not available due to subsequent changing of their schedules. The interviewees were listed in the following Table 1.1.

Interviews were conducted in English, and taped with agreements of interviewees. All interviewees agreed to be referred to in the thesis. Interviews show that patterns of engagements between the SMG and foreign investors can be characterised by a process of learning, whereby both the SMG and foreign investors have been learning how to deal with each other more efficiently. When both learn there is an interest

convergence in such urban redevelopment project as the development of LCFD, they can work together and form what can be called a project-based, implicit pro-growth coalition.

Table 1.1 List of Representatives of Foreign Investors Interviewed

Name	Position and company
Warren Wisnewski	Vice President of Eastman Kodak Company for the Greater China Region
Hans J. Geelhaar	General Manager of Shanghai Gaoqiao-BASF Dispersions Co. Ltd.
Michael Gotschlich	General Manager of The German Centre Shanghai
Frank Wang	Deputy General Manager of Delphi Automotive Systems (China) Holding Co. Ltd.
Tomoshige Yamada	General Manager of Shanghai Senmao International Real Estate Co. Ltd.
Albert K. Ng	Andersen (Shanghai) Business Consulting Co., Ltd.
Edward Cheung	DTZ Debenham Tie Leung (Shanghai) Ltd.

1.3.4 Case study

The case study method is employed to illustrate the formation of a Chinese-style pro-growth coalition between the municipality and international capital -- one of the core issues in the thesis. The case study method is used because the formation of the pro-growth coalition involves the process of the state-capital interaction -- the question of "how". According to Yin (1994:1), "case studies are the preferred strategy when "how" or "why" questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context". The investigation of the role of the state and of the interaction of the state and capital defy the common approaches of data collections in social science such as experiment and survey. It is not possible to investigate the role of the state and capital by arranging experiments where conditions can be controlled and responses or behaviours can be manipulated. Rather, the data collection relies on the accurate and consistent observation of the subject matter within its own environment (Yin, 1994).

The case chosen in this thesis is the development of Lujiazui Central Finance District (LCFD) (Chapter 8). The LCFD was selected for several reasons. First, it is the pet project of the Shanghai Municipal Government (SMG). As such, it is a project in which the role of the state and international capital manifest themselves in a way that is very illustrative of their characteristics. It is what Yin (1994) called a “critical case” – the single case represents a critical test of a significant theory. Second, ten years on, the physical structure of the project has clearly emerged. Most of existing enterprises and residents have been removed and many major high-rise buildings including some high-profile have been completed. It is an appropriate time to assess the role of state and capital in the development of LCFD. Finally, this is the area I am most familiar with. My office used to be located in the LCFD and I witnessed its development in the critical period of 1993-1996. In fact, I felt that I was part of it, because our Bureau had been involved in the project and my position (I was working in the general office) enabled me to gain access to the relevant information on the progress of the project. Thus, the three years that I worked in Pudong can be seen as a period of participant observation.

Both quantitative data and qualitative methods were used in the case study research. In terms of qualitative methods, apart from the initial “time-saving” participant observation, the interview method is employed to get the necessary evidence. Again, my erstwhile position helped me to conduct the interviews with officials concerned.

One major concern about case studies is that they provide little basis for scientific generalisation. It is thus important to stress the difference between the method of generalisation in case studies and the most commonly recognised way of generalising known as “statistical generalisation” where an inference is made on the basis of empirical data collected from a sample. In case studies, the method of generalisation is “analytic generalisation” in which a previously developed theory is used as a template with which to compare the empirical results of the case study (Yin, 1994). In other words, a case study analyst should try to generalise findings to “theory”, analogous to the way a scientist generalises from experimental results to theory. In this sense, the thesis tries to generalise findings from the case of LCFD to the theory

that the implicit pro-growth coalition between the local government and international capital has been the underpinning force in shaping Shanghai's urban patterns.

1.4 Thesis structure

The thesis consists of nine chapters. Chapter 2 discusses the approach of Urban Political Economy in which the thesis broadly lies. It begins with a review of the rise of Urban Political Economy as a new paradigm in urban studies. The understanding of Urban Political Economy is approached by linking it to the development of theories of capitalism in two dimensions: accumulation regimes and the world system. It is then argued that Urban Political Economy has largely neglected the key role of the state and state policy in the shaping of urban patterns, and an approach combining both economic and political factors is needed in constructing an explanation of contemporary urban change.

Chapter 3 is a substantial theoretical discussion about the role of the state in urban change. After a discussion about the major functions of nation-states in today's world economy, the role of the state, both at the central and the local level, in cities is analysed respectively in capitalist and socialist countries by drawing on Gurr and King's (1987), and Kornai's (1992) works. In capitalist countries, national and local states have their own distinctive interests in cities and have significant autonomy in how they pursue them. This autonomy allows the state to play an important role in the shaping of urban patterns. The political domination of the communist party and the centrally planned economic system makes the role of the socialist state in cities distinctive. Compared with its capitalist counterpart, the socialist state is far more powerful in shaping urban patterns. However, due to the highly centralised party system, the local state in socialist countries has little autonomy over the urban development. Urban patterns in socialist countries result mainly from policies of the central state, or precisely of the communist party. The chapter concluded with an attempt to put Shanghai's urban development into the theoretical context that has been established in the previous analysis.

Chapter 4 is concerned with the urban development of Shanghai before 1949. The discussion is focused on the rise and fall of the “Shanghai Model” – a phenomenon well known in the historical literature. From a feudal commercial town to one of the largest cities in the world, Shanghai’s unprecedented success is attributed to its non-governmentalism stemming from Shanghai’s international status. Imposed by western powers, this special status gave Shanghai fifty years of maximum capital accumulation with minimum state intervention (White, 1981). With the increasing intervention of the Chinese state resulting from the inevitable rise of nationalism, the Shanghai model declined gradually and was brought into end by the communist victory in the civil war. The changing state-capital relationships in the shaping of Shanghai’s urban patterns in four historical periods are shown in diagrammatic in the final section.

Chapter 5 examines Shanghai’s urban structure under the political economy of state socialism (1949-1978). The introduction of state socialism eliminated private capital, and Shanghai’s urban development was determined exclusively by the state, particularly the central state. State policies, particularly the overriding policy of industrialisation with minimum urbanisation, transformed Shanghai from a capitalist city of consumption into a socialist city of production. This revolutionary change is then analysed in terms of the economic base, spatial morphology and social structure.

Chapter 6 analyses the emergence of a new role of the Chinese state both at the central and local level brought about by China’s reform policy, and the impact of the reform on the dynamics of Shanghai’s urban development. Developmental state theory, particularly Gordon White’s works (1984, 1993) on the developmental state, is employed in understanding China’s reform as a process of redefining the Chinese state. This redefinition is, however, gradual and partial. While it has changed the state-capital relationship, the state-party relation remains intact. The change of the state-capital relation, and of the central-local relation that goes with it, has led to the rise of local state corporatism. This local state corporatism has sought to build a partnership with the non-public sector, which led to the emergence of a socialist pro-growth coalition between the local government and international investors in Shanghai. The chapter then examines the impacts of China’s reform on the

mechanism of urban development from three interrelated aspects: 1) investment source; 2) development organisation; and 3) urban planning system.

Chapter 7 addresses the question of "what dimensions of Shanghai have been restructured since the reform?" Twenty years on, Shanghai has been increasingly linked to the global system of markets for capital, labour and commodities. This fundamental shift in its mode of integration with the world economy has had a profound impact on Shanghai's urban restructuring. With the shrinking of the role of the state, the chapter shows that Shanghai's urban restructuring has been increasingly fuelled by international capital in economic, spatial and social terms. The chapter is concluded by depicting a new state-capital relationship that has been underlying Shanghai's urban restructuring in the post-reform era.

Chapter 8 presents a case study of the LCFD. As the Chinese equivalent of Manhattan, the LCFD is the pet project of the SMG. The chapter examines the roles of the central government, local government and international capital in the development of the LCFD. It focuses particularly on the interaction of local government and international capital, and the process of formation of the implicit pro-growth coalition between them. Drawing on interviews, the chapter shows that patterns of engagements between the local government and foreign investors can be characterised by a process of learning. When both learn there is an interest convergence in such urban redevelopment project as the development of LCFD, they can work together and form what can be called a project-based, implicit pro-growth coalition. It is this pro-growth coalition, which underlay hundreds of redevelopment projects across Shanghai in 1990s, that has been reshaping Shanghai's urban patterns.

Finally, chapter 9 provides a brief summary of the main findings contained in the thesis, and some implications for future research.

Chapter 2

URBAN POLITICAL ECONOMY AND THE STATE

2.1 Introduction

Chapter 2 begins with a review of the rise of Urban Political Economy as a new paradigm in urban studies. The understanding of Urban Political Economy is approached by linking it to the development of theories of capitalism in two dimensions: accumulation regimes and the world system. It is then argued that Urban Political Economy has largely neglected the key role of the state and state policy in the shaping of urban patterns, and that an approach combining the economic and the political factors is needed in constructing an explanation of contemporary urban change.

2.2 A new paradigm of urban studies

The late 1960s were characterised by urban social upheavals in the advanced capitalist countries. The civil-rights and antiwar movement in the US, and the left-wing students uprising in Paris, saw urban protest become epidemic in many major capitalist cities. Together with this social unrest, there were a series of signs of urban decline in western cities: a declining industrial sector, falling total productivity, decaying housing and infrastructure, shrinking population, and growing concentrations of poverty and social stress. The emergence of urban decline has been later referred to as the decade of urban crisis in the western countries (Hill, 1984). As these urban social movements challenged existing institutional arrangements in the city, they called into question existing modes of urban inquiry which were based on the centrality of the market and the assumption of a free market system and which were often associated with the Chicago School (Logan and Molotch, 1987). The Chicago School sought to explain urban patterns as the consequence of ecological

competition, invasion, and succession among groups within the city (Park, 1952). Confronted by the urban crisis, while it may help explain the question of *what*, this urban paradigm could hardly provide a satisfactory explanation of *how* and *why*.

Unsatisfied with the old mode of urban inquiry, urban researchers (most prominently, Castells, 1977 and Harvey, 1973) turned to Marxism for an explanation. Marxism had arisen as a leading school of thought in the western social science as a result of social scientists responding to the social crisis in capitalist countries. As an intellectual tradition, Marxism, although not especially focused on cities, was more attuned than mainstream urban studies to conditions of disorder, discontinuity, social upheaval, and economic crisis in capitalist countries. This shift of urban studies to Marxism gave rise to a new paradigm for urban studies that has been widely known as Urban Political Economy (Walton, 1979).*

Urban Political Economy, in spite of diverse strands, shares common theoretical principles which Hill (1984) summarises as holistic, structural, historical, interdisciplinary, critical, and change-oriented dimensions. Among those, the holistic, structural and historical are the most important in catching the characteristics of Urban Political Economy.

In opposition to the conventional urban researchers who viewed urban development as being isolated in time, and limited spatially to the boundaries of such areas as regions within nations, urban political economists attempt to relate patterns of urban development to the development of societies and the international order as a whole (Hill, 1984). In other words, urban political economists try to understand urban change under larger economic, political and socio-cultural milieu. According to urban political economists, any change in a city should be interpreted in the context of the change in a society as a whole. The development of a city was seen as dependent on, and reflecting wider change in the social formation of the whole country, and the wider world (ibid.).

* Zukin (1980) has linked the origins of the Urban Political Economy to the parallel evolution and eventual merger of three lines of critical thought: French Marxism, British neo-Weberianism, and American "radical empiricism".

Urban Political Economy has been also called a “structuralist urban theory” (Smith, 1980) because French structuralism provided the chief guiding theoretical influence over its early development. Structuralists believe that the objective of social sciences is to seek the hidden “rules of the game” -- the causal mechanisms which underlie empirically observable social phenomenon. For Marxism, this hidden causal force in all social formation is the mode of production. The mode of production, the central category of Marxism, appears “both as a relation between the individuals, and as their specific active relation to inorganic nature” (Peet and Thrift, 1989: 9).

These relations form the economic structure of society, the foundation on which arises ‘a legal and political superstructure, and to which correspond definite forms of social consciousness’ (Marx 1970, p. 20). The type and level of social and natural relations correspond with a ‘specific stage in the development of the productive forces of working subjects’ (Marx 1973, p. 495). ... Development of the productive forces fundamentally changes the economic structure and, through it, the entire society (Peet and Thrift, 1989: 9).

By focusing on the mode of production, Marxism is firmly based in the economic sphere and treats other institutional areas as primarily shaped by economic determinations. This orthodox Marxism that has been accused of economic determinism was revised by the French philosopher Louis Althusser. In his view, “non-economic” elements, such as consciousness and politics, are relatively autonomous from economic structure and, both the economic and superstructure are determining and determined. For him, society is a complex “structure in dominance”, and in the structure-dominated society, human beings are bearers, rather than makers, of social relations (Peet and Thrift, 1989).

Althusser’s work laid the foundation for the Structural Marxism which became the dominant version of Marxism in the west in the 1960s and for much of the 1970s. Structural Marxism has, since its inception, faced fierce criticism in the social science (for criticism and defence of Structural Marxism, see Beauregard, 1984). In its application to the human geography, critics such as Duncan and Ley (1982: 30) argue that a number of theoretical problems have not been resolved, including “the status of individuals as a creative force in shaping events, the ontological status of

structures, the relationship between consciousness and structure, and the tendency to functionalism and teleology in explanation".

Despite all these criticism, Structural Marxism was quickly introduced into the urban research, first by Manuel Castells in his influential book *The Urban Question* (1977; originally published in French in 1972), and then David Harvey's (1973) *Social Justice and the City* written at about the same time. Their work initiated the radical school of Urban Political Economy that would deeply influence and shape urban scholarship up to the mid-80s. While differing in many aspects, they hold a common basic argument that the spatial structure of the capitalist city must be theorised in relation to the capitalist mode of production. In capitalist society the class relation between capital and labour is the fundamental social relationship. This class relation must be constantly reproduced, not only socially but spatially, in order to maintain social harmony, and economic and political stability. In capitalist cities, therefore, the urban form is the projection of society on space, perhaps more importantly, urban form helps in turn to reproduce the key social relationships which in capitalist society is that of class.

Urban political economists stress the importance of abstract deep structures which determine urban development. For example, Harvey's capital switch theory (1978, 1985) is a classical political economy approach that attributes urban processes in capitalist societies to the general law of capital accumulation. According to him, seeking for excessive profit inevitably leads to overaccumulation crises signalled by a falling rate of profit in capitalist countries. In response to such crises, the capital switches from the primary circuit, in which value and surplus value are produced, to the secondary circuit of fixed-assets and the production of the built environment. To create a more efficient arena for circulation, the city was built, and is continuously being destroyed and rebuilt. The dynamics of urbanisation in capitalist societies is thus rooted in the shift of capital from the primary to the secondary circuit.

This said, urban political economists are also aware that hidden laws such as the mode of production are realised only in concrete social formations. The social formation, a historically determined configuration in a geographic area, reflects an intertwining of social, cultural, economic, and political processes, some of which

may be common to the same type of cities, while others are specific to the locality. For example, cities in Third World share some common characteristics due to their peripheral location in an expansionary global capitalist system. Meanwhile, as Chatterjee (1989: 130) notes,

Since there are many pre-capitalist societies, and their articulation with global capitalism varies, this gives rise to many differing urban expressions of the common processes underlying the incorporation of pre-capitalist societies into the capitalist system. That is, the attributes of Third World cities are not universal, rather they reflect the contradictions internal to a social formation or arising from the articulation of different social formations. ... it is important to emphasise that the general is combined with the conjunctural.

Since its inception in the early 1970s, Urban Political Economy has revolutionised the study of cities and initiated a period of exciting and fruitful scholarship (Friedmann, 1986). Under its influence, “the city was no longer to be interpreted as a social ecology, subject to natural forces inherent in the dynamics of population and space; it came to be viewed instead as a product of specially social forces set in motion by capitalist relations of production” (Friedmann, 1986: 69). Urbanisation processes, therefore, have to be understood in relation to the evolution of capitalist system as a whole. The linkage of urbanisation processes to the larger historical movement of industrial capitalism provided a new direction and more excitingly, new possibilities for urban studies, because the capitalist system was about to undergo another historical restructuring.

2.3 Urban political economy and theories of capitalism

2.3.1 Capitalism as an accumulation regime and a world system

As a form of political economy, capitalism has evolved through a series of overlapping yet relatively distinctive phases. Each historical phase lasts thirty to fifty years based upon very different economic, societal and political norms. From the mid-1970s on, advanced capitalist society entered a transition period from one distinctive phase of capitalist development to a new one (Amin, 1995). The passing phase, with its heyday in the 1950s and 1960s, was characterised by the intensive

accumulation with monopolistic regulation of the economy. It has been widely known as “Fordism”, a term coined by Regulation Theorists (Aglietta, 1979; Lipietz, 1985, 1987; Jessop, 1992) to loosely reflect the pioneering mass production methods and rules of management applied by Henry Ford in his car factories in America during the 1920s and 1930s. The slowdown of growth and recurrent recessions since the mid-1970s were seen as symptoms of the crisis of Fordism. Although all regulation theorists agree that Fordism has been in structural crisis since 1970s, what might emerge out of the crisis is still a very controversial issue, ranging from between “neo-Fordism” (to stress a strong element of continuity with Fordism), “post-Fordism” (to denote a genuine resolution to the crisis of Fordism) and “after-Fordism” (to designate a period after Fordism rather than a new phase of capitalist development) (Amin and Thrift, 1995). It is, however, generally agreed that there is a tendency towards a capitalist regime of flexible accumulation in the wake of the crisis of Fordism.

Opposing the mass-production and mass-consumption of the old system, the new regime of flexible accumulation requires less specialised and more flexible labour (usually accompanied by low rates of unionisation), short production runs, and high quality production for specialised market niches (Jessop, 1995). The new regime also brought into being a new mode of regulation. The Keynesian welfare state, which helped legitimate redistributive policies for the deprived, was dismantled in favour of a more decentralised entrepreneurial state deemphasising social welfare and emphasising developmental policies in public-private partnerships with business (Harvey, 1989b).

Inspired by the dramatic change in the structure and organisation of modern Western economy and society, social scholars outside regulation theory came up with a variety of discourses, trying to catch the main feature of the complex transitional period of capitalism. Terms such as “postindustrial” (Savitch, 1988), “disorganised capitalism” (Lash and Urry, 1987, 1993), “postmodern” (Harvey, 1989a), and “fifth Kondratiev” (Freeman and Perez, 1988) have been coined by leading academics to describe the emerging new age of capitalism.

Capitalism has also been seen as a world system that expands spatially and will engulf the whole world (Wallerstein, 1974,1979,1980). First trade, then marketing, then finance evolved to span the globe. During the process of expansion, a hierarchical division of labour among what was referred to as the core, semiperiphery and periphery was formed, in which the periphery concentrated on agricultural produce and raw materials while the core countries dominated manufacturing. With the growing internationalisation of production since 1945, it has been believed that this international division of labour based on the international core-periphery trade has been changed (Frobel et al, 1980). As levels of skill involved in manufacturing production were reduced sharply, more and more companies shifted their production processes into the periphery countries where labour power is cheap to buy, abundant and well-disciplined. As a result, a new international division of labour has emerged. The new international division of labour (NIDL) is “a system for production on a world scale in which even greater numbers of people are integrated into activities carried on by large international producers of goods and by international firms which serve these producers” (Cohen, 1981: 288).

With the intensification of NIDL, many believe that a new type of economy – a global economy has emerged since the late 1970s. A global economy involves not merely the geographical extension of economic activity across national boundaries but also – and more importantly – the *functional integration* of such internationally dispersed activities (Dicken, 1998: 5). In other words, the global economy is qualitatively different from the previous world economy. The globalisation of the capitalist economy, and the intensification of political and social activities in the global level that comes with it, have led many believe that the world around us has entered a new era – the “era of globalisation” (Cohen and Zysman, 1987; Drucker, 1986; Reich, 1991; Ohmae, 1990). The “era of globalisation” is of course capitalist in its nature, in fact, more so than ever before. This is another triumph of capitalism which has virtually engulfed the whole world since the collapse of communist regimes in Eastern Europe in 1989. From the viewpoint of political economy, globalisation is another stretching-out of capitalist social relations over space in a new burst of time-space compression based on informational technology (Leyshon, 1995).

The evolution of the capitalist system, both in its accumulation regime and its spatial organisation, provided timely opportunities for the application of the newly established urban political economy to capitalist cities which, as the centres of global capital accumulation, have been undergoing a dramatic urban restructuring since the early 1970s (For the historical evolution of relationship of capitalism restructuring and urban restructuring, see Soja, 2000). As a result of this application, urban political economy quickly established itself as the leading paradigm of urban studies, in which new approaches flourished.

2.3.2 Capitalist accumulation system and Urban Political Economy

Through the lens of the capitalist accumulation system, urban political economists developed approaches that linked urban changes to the rise of flexible regimes of capital accumulation. The “Postfordist City”, “Postindustrial City” (Savitch, 1988), “Informational City” (Castells, 1989, 1994) and “Postmodern City” (Harvey, 1987, 1989b) are the main discourses coming from this perspective. The theoretical assumptions held by these scholars is that urban patterns are the spatial reflections of historical capitalist development. Under fordist capitalism, we have the fordist city which is characterised by strong agglomeration processes, the standardisation and industrialisation of construction, the nuclearisation of the family and far-reaching processes of social disintegration (Esser and Hirsch, 1995). By the same token, the crisis of fordism also means the crisis of the fordist city which gives way to the post-fordist city.

Under postfordism, cities are increasingly seen not as a place to produce but as an arena of spectacle and play (Harvey, 1987). This can be seen through the enormous proliferation in recent years of shopping and leisure experiences such as shopping complexes, marinas, Chinatowns and so on -- a phenomenon referred to as the “mobilization of spectacle” by Harvey (1987). More and more high income groups who are often young professionals working in the producer service sectors are hunting for status-enhancing luxury goods. This consumption preference enhances further the tendency towards customised products. New products -- particularly responding to quickly changing fashions -- require constant innovation from capital. This also has cultural consequences:

The relatively stable aesthetic of Fordist modernism has given way to all the ferment, instability and fleeting qualities of a post-modernist aesthetic that celebrates difference, ephemerality, spectacle, fashion, and the commodification of cultural forms (Harvey, 1989a: 156).

This postmodernism culture is extremely discriminating. It is the affluent capitalist elite that produce, consume and control the postmodernism culture, while the poor are excluded economically, socially and spatially. Harvey (1987) referred to this exploitation of differentiated markets and its subsequent social implications as the "production of symbolic capital" (see also Zukin, 1992). The third aspect of post-Fordist urban change observed by Harvey (1987) is a sustained rise in poverty and informal activity stemming from post-Fordist deindustrialisation and the emergence of the flexibly organised economy. The process has created a vast underclass of low-income or no-income communities increasingly abandoned by welfare programmes, and isolated from areas of the city "embellished" for the well-off (Harvey, 1987).

Associated with the rise of the postfordist/postmodern city are shifts in the ways in which cities are run. It has frequently been asserted that Western cities are now being managed, organised and governed in different ways, leading some to proclaim the emergence of a "new urban politics" (Cox and Mair, 1988; Cox, 1993; Kirlin and Marshall, 1988). Under the postfordist mode of production, capital became even more geographically mobile and the new and more flexible labour processes could be more easily implanted. The postfordist way of life led to a new urban economy which is increasingly dependent on consumption priorities. Urban governments with the ruling class alliance increasingly in favour of a growth-machine policy found themselves in a fierce competition with other cities (Logan and Molotch, 1987). In order to attract external capital, urban governments were forced to adopt all kinds of measures (from wage-disciplining to public investment), trying to lessen the cost of a change of location to the enterprise (Harvey, 1989b). To make their cities more attractive as consumer and cultural centres, urban governments have been pushed to a huge subsidy for affluent consumers and multinational corporations to stay in town at the expense of local collective consumption for the working class and the impoverished. The managerial approach in which city's main function is seen to manage the local provision of welfare and service has thus given way to initiatory

and entrepreneurial forms of action in the 1970s and 1980s. Local governments are acting in a more businesslike manner, imbuing with characteristics once distinctive to business – risk-taking, inventiveness, promotion and profit-motivation. This has led many commentators to argue that managerialism, so characteristic of urban governance in the 1960s, has been reoriented towards entrepreneurialism as the main motif of urban action (Mollenkopf, 1983; Judd and Ready, 1986; Harvey, 1987, 1989b).

2.3.3 The capitalist world economy and Urban Political Economy

Another group of urban political economists have focused on the implications of globalisation of the world capitalist economy for urban development. They emphasised the significance of economic, political and social process located outside the immediate terrain of any particular city to its internal structure. The world city/global city perspective (Friedmann and Wolff, 1982; Friedmann, 1986, 1995) is the most influential discourse among these approaches that try to link directly urban restructuring to the world economy. The basic argument of the world city thesis put forward by Friedmann and Wolff (1982: 309) is that “the character of the urbanising processes – economic, social and spatial – which define life in these cities reflect, to a considerable extent, the mode of their integration into the world economy”. They argue that with the development of world economy, a new type of city – world cities has emerged in the core and semi-periphery countries. Those cities are the command centres of world economy, the spatial manifestation of the dominant role of transnational capital in the world economy. The cities’ position in the world urban hierarchy are decided by the extent and the ways in which the urban areas are integrated into the world economy (Friedmann and Wolff, 1982).

The idea of linking urban development to the world economy was further developed by Sassen (1991) in her influential book *The Global City: New York, London, Tokyo*. While Friedmann and Wolff view world cities as simply the outcome of a world economy, Sassen emphasises the need for such cities in the development of world economy, arguing that the territorial dispersal of modern economic activity creates a need for greater central control and co-ordination and thus for the global cities of which London, New York and Tokyo are the key representatives (Hamnett, 1995).

According to her, global cities are not only the command points for the global economy, but more importantly, they are now production sites for services and financial innovations at a global level (Sassen, 1991; 1994). These changes in the strategic functions of major cities in the world economy have had profound implications for cities' internal structure. The advanced services for firms such as finance, insurance, and real estate, which she referred to as producer services, have risen to be the dominant sector in global cities' economic base, while the manufacturing sector has continuously lost ground.

This economic restructuring has resulted in the polarisation in the income distribution and occupational distribution of workers. While the rise of producer services has brought about the rapid growth of population of professionals earning higher income, it has also created the growth of a low-income stratum of workers (see also Hamnett, 1994, 1996). This economic polarisation has been vividly reflected in global cities' spatial reorganisation. On the one hand, we see the upsurge of gentrification of the central urban areas located in or around the financial core, like Lower Manhattan in New York and the City in London, in both its commercial and residential settings, which caters for the high-income sectors. On the other hand, sweatshops and industrial homework proliferate. Thus, global cities are divided in economic, social and spatial terms. For this reason, they have been labelled as "Divided Cities" (Fainstein et al, 1994), "Dual City" (Mollenkopf and Castells, 1991) and the "Quartered City" (Marcuse, 1993).

Although with different focuses, the above two approaches to the contemporary urban changes are interweaved under the banner of urban political economy. More often than not, their research subjects overlapped. Global cities are postfordist/postindustrial/postmodern cities as well, because capitalism evolves as a political economy that is worldwide in its scope.

2.4 Urban political economy and the state

As with any new theory, urban political economy provoked a variety of critics. One of the main criticisms is concerned with its treatment of the role of the state in urban

formations. Urban political economists, although claiming that they take into account economic as well as political factors in their research, tend to overlook the importance of political actors such as the state in shaping the urban patterns. This is mainly due to the fact that urban political economy deprives its philosophical base from structuralism. Structuralist ideas hold that beneath empirically observable social phenomenon, there are causal mechanisms that determine social formations. Economic structure based on the mode of production is seen as the determinative element in all social formations, while other factors including the state are regarded as derivative of economic processes, which tend to reproduce the economic structure rather than change or undermine it (King, 1987). Because the state's policies are viewed as essentially supportive of economic interests, most attention has been given to the historical movement of capitalist accumulation, while the role of state both in the central and the local was overlooked.

For example, Gordon (1976), in his research related to American urbanisation, accords a minimal role to the state. He writes about political factors in the following way:

All of these factors had secondary effects, however, in the sense that they tended to reproduce the structure of the Corporate City rather than change or undermine it. The foundation of that urban form was so strong that simple political influence could not change its basic shape (Gordon, 1976: 55).

Clearly, Gordon considers all aspects of state policy concerned with urban issues to reinforce or support dominant economic interests. His account of the role of the state represents a typical proposition shared by many urban political economists. As King (1987:218) points out, in his classic book *Social Justice and the City*, Harvey also minimises the role of the state. He attributes a secondary function to the state as a channel of investment to cities where the market system is doing this inadequately. Similar views appear in his capital switching theory when he gives the state a role of mediator between the primary and secondary circuits of capital:

Since the production of money and credit are relatively autonomous processes, we have to conceive of the financial and state institutions controlling them as a kind of collective nerve centre governing and *mediating*

the relations between the primary and secondary circuits of capital (Harvey, 1978: 107, original highlight).

Even for Castells (1977), whose conceptualisation of collective consumption gives the state an important and distinctive role with respect to cities, state policies are still essentially supportive of economic interests and therefore, hardly independent from economic constraints (King, 1987).

Contrasting with this economic-centred approach, some urban scholars acknowledged the state's potential independence of economic constraints and tried to view state policies as an independent variable which together with economic dynamics work as two major forces in shaping urban patterns. Mollenkopf (1983), in his major study of post-war American federal urban programmes, emphasises the importance of initiatives within the state. Gurr and King (1987) argue that state managers have a certain autonomy from economic process which allows them to pursue their own interests. As King (1987: 220) says:

... at any given historical juncture the state may be dominated by capitalist economic interests but such domination does not necessarily hold. Over the long run state managers will attempt to increase their autonomy from economic interests.

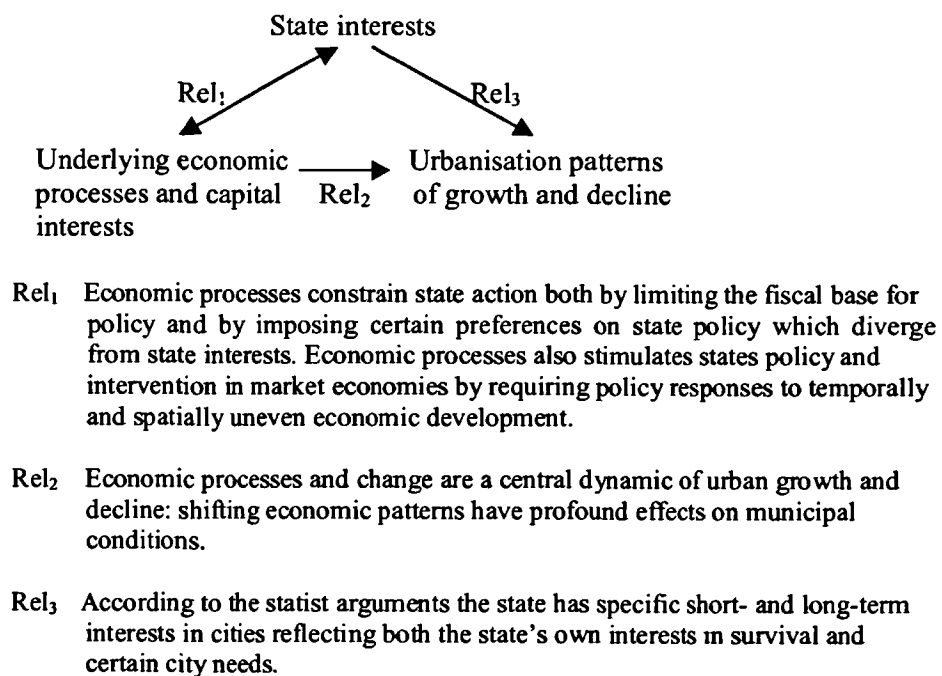
A more systematic treatment of the state's capacity to affect urban change is provided by Feagin's (1984) study of Houston, Texas. He distinguishes three categories of actors in determining the growth of Houston:

- 1) Capital
 - a) Local capital
 - b) National/transnational capital
 - 2) Labour
 - 3) The state
 - a) The central state (federal government)
 - b) The regional state (the "state of Texas")
 - c) The local state (city government)
- (Feagin, 1984: 448-449)

He then identifies six examples of the state-economy relationship which underlies Houston's urban development in six different periods since the 19th century. Feagin's empirical study highlights Fainstein and associates' (1983) theoretical argument, which summarises the view shared by this group of urban scholars advocating a more independent position for the state vis-à-vis capital: "urban redevelopment cannot ...be explained through either a purely economic analysis or a study of local politics divorced from the economic relations that confine it" (Fainstein et al, 1983:1). It is the combination of economic dynamics and state policies that are crucial to the shaping of urban patterns.

With regard to the relationships among the state, capital and urban changes, King provides the following figure (Figure 2.1) that catches their complicated relationships very well.

Figure 2.1 Central Relationships in Contemporary Urban Political Economy



Source: after King (1987: 217)

According to King, the urban political economy literature has expanded our understanding of Rel₂ but in part at the expense of Rel₃. What he and other state-centred scholars try to do is to redress the balance by focusing on the role of the state in the shaping of urban patterns. In their mind, cities change not only as a result of the requirements of global or local capital but also as a result of state policy at the local and national level. Feagin and Smith's (1987: 17) following assertion sums up their understanding of economic dynamics and state policies in determining urban restructuring:

There are, in effect, two worldwide "logics", an economic (capitalistic) logic and a state logic; these have for a century or more been inextricably interrelated. Changing urban development patterns are best understood as the long-term outcome of actions taken by economic and political actors operating within a complex and changing matrix of global and national economic and political forces.

Despite the strong theoretical arguments and empirical research made by the group of scholars that advocate this dual-logic approach, the overall picture of urban studies has been still one dominated by economic-centred approaches. With the globalisation of the world economy, the domination of economic-centred approaches in urban studies has been further strengthened. A recent indication of this domination has been the quick rise of the world city perspective as one of the most influential approaches in urban research domain since the early 1980s. The advocates of the world city perspective believe that a single global system is becoming superimposed on nation-states which are losing importance as a result. They argue that globalisation produces a world city system that transcends national institutions, politics and culture, and as a result of it, there has been a convergence in "economic base, spatial organisation and social structure" among the world's major cities, especially New York, London and Tokyo (Sassen, 1991: 4).

This globalist world city perspective has been strongly criticised for its neglect of the important role of the state, culture and historical trajectories in the formation of all world cities (e.g. Abu-Lughod, 1995; Hill and Kim, 2000). Hill and Kim's recent paper on the discrepancy of Tokyo and Seoul from New York in many salient respects (2000) shows that the state matters significantly in determining a city's distinctive characteristics. While New York, the prototype of the world city theory, is

market-centred and bourgeois, Tokyo and Seoul are state-centred and political-bureaucratic. Tokyo and Seoul's divergence from the world city hypothesis, they argue, stem from late industrialisation and especially the relationship between industrial policy and finance institutionalised in a developmental state. Hill and Kim's findings challenge one of the world city theory's central assumptions that globalisation diminishes the power and integrity of the nation-state, as they argue that "understanding Tokyo and Seoul necessitates a different conception of the world system from the globalist version of the world city argument" (Hill and Kim, 2000: 2167). In their conception of the world system, the formation of world cities is not only determined by the capital-driven globalisation processes, but also strongly influenced by the national development model and regional context in which each city is embedded.

In his reply to Hill and Kim's critics, John Friedmann (2001: 2535), one of the best-known architects of world city perspective, has commented that:

On the whole, world city research has neglected the role of the state – both national and local – as though market forces were all but determining of spatial form and structure. Research has also tended to neglect cities' historical trajectories, thus robbing them of their distinctiveness (Abu-Lughod, 1995). Both these forces, institutional and historical, are bound to create significant differences among world cities, however defined.

In the same paper, Friedmann attributes the theory's neglect of the role of state and history to the fact that the world city hypothesis is a theory of structuration in Giddens' sense. With this philosophical limitation, he thinks that the theory may ultimately have to be abandoned although that time has not yet come.

Parallel to the development of the world city perspective is the emergence of what can be called the theory of urban entrepreneurialism. Often associated with "the new urban politics" referred to earlier, the central argument of urban entrepreneurialism is that global economic restructuring and the intensification of inter-urban competition have led to the emergence of an entrepreneurial mode of urban governance (Harvey, 1989a, 1989b; Hall and Hubbard, 1996, 1998). Contrast with the urban managerialism of earlier decades (pre-1970s) which had focused primarily on the local provision of services, facilities and benefits to urban populations (Harvey,

1989b: 3), the new entrepreneurial regime focuses on the pursuit of economic growth and often in close alliance with (global) private capital (Hall, 1988; Leitner and Garner, 1993). Within the entrepreneurial regime, public-private partnerships have been deployed as a key strategy in urban regeneration programmes, most dramatically seen in the construction of prestigious flagship projects such as spectacular waterfront cities, convention centres and other mixed-use commercial developments. In public-private partnerships, city governments, owing to their inherent fiscal weaknesses, have to rely on powerful business leaders as growth partners, and have often found themselves being disadvantaged or “captured” by private capital (Logan and Molotch, 1987). More often than not, an uneven distribution of costs and benefits occurs as the public sector assumes most of the risk while the private sector reaps the benefits (Leitner and Garner, 1993: 62).

Again, critics have focused on the ways urban entrepreneurialism treats the role of the state (e.g. Hall and Hubbard, 1996; Short and Kim, 1999). Focusing on capital imperatives, advocates of urban entrepreneurialism tend to ignore the fact that the nature of urban entrepreneurialism has been mediated through local social and political factors. In many of the studies, city governments are treated as no more than economic agents responding to global economic restructuring and intensifying inter-urban competition, which have left them with no choice but to engage in high risk speculative partnership with private capital (both local and foreign). As a result, we have seen “a homogenous entrepreneurial city emerging mechanistically from global economic forces” (Short and Kim, 1999: 117). Such ideas are flawed as they fail to consider the capability of the local state in resisting the pressures of global capital as well as its role in shaping national urban systems and urban competitiveness. While the emergence of the entrepreneurial city may be seen as a common trend in many late capitalist societies, its shape and nature is, however, contingent upon varying local factors and conditions such as different national regulation systems and local political cultures.

Critics have also noticed that the literature of urban entrepreneurialism has concentrated on only a few Anglo-American cities where local political autonomy and the traditional ideology of privatism have led to a powerful private capital in the shaping of urban development. When it comes to cities such as Singapore, Shanghai,

Seoul and Tokyo, where the strong local governments are capable of exercising their influences and harnessing private capital for cities' economic development, urban entrepreneurialism theory immediately loses much of its interpretation force (see for example Cybriwsky, 1999; Ford, 1998; Low, 1990; Olds, 1995, 1997, 1998; Pow, 2001). In such developmental states as Japan, South Korea, and Singapore, the state has played a key dominant role in promoting economic growth and "state entrepreneurship" has always been a dominant feature of urban politics (Low, 1990). This state-led entrepreneurship can be seen in the design and planning of urban development strategies, organisation of the large scale urban spatial planning, setting up of large state-owned land development corporations, and building of modern infrastructure in major cities of these countries.

The central argument stemming from these critics is that new urban patterns are shaped not only by global capital imperatives but also by local social and political factors among which the state is the most significant. It is specific cultures of interaction and patterns of engagements between local and global actors that have shaped the formation of urban entrepreneurialism and urban development. Thus, the critics call for a more socially and culturally sensitive approach that is concerned more with the human dynamics and social relations in researches of the burgeoning urban entrepreneurialism.

All of the above theoretical discussions are of course in the context of capitalist countries. While economic-centred approaches dominated urban studies in capitalist countries, researches on cities in state socialist (hereafter "state socialist" and "socialist" are interchangeable) countries have focused on the decisive role of the state in determining urban development.

In socialist countries, private capital does not exist and play no role in the shaping of urban patterns. By private capital, I refer to money that can be used as an independent form of value to invest for the profit. Although money exists in both socialist and capitalist countries, the capitalisation of money can only be realised in the capitalist social relation (Clarke, 1992). State socialism entails a centrally planned economy in which enterprises produce according to the plans negotiated with the central government. All economic transactions between enterprises are

directed by high authorities. Although prices are used and monetary balances are adjusted accordingly, “such transactions were only nominal since the ‘money’ in question was strictly money of account, which could not be diverted to other purposes or converted into cash” (Clarke, 1992: 6). Socialist enterprises are, therefore, not subject to the law of value (the rule of market) and socialist economy is essentially non-monetary. Under such a system, there is no way in which money could appear as the independent form of value, and so no basis on which social property could assume the independent form of capitalist private property.

The absence of private capital means that the state is the main sphere of determination in socialist countries. Because the power of the state, primarily the central organs of government and the Communist Party, is so formidable and decisive (to be discussed in detail in next Chapter), urban researchers always look to the role of the state for the explanation of urbanisation processes in socialist cities.

What about cities in a transitional economy (more precisely, cities after socialism)? The state-capital relationship underlying the dramatic transitions in these post-socialist cities is an interesting yet less explored area in contemporary urban studies. These cities are unique in the sense that they are in transition. They used to be state socialism where the public policy was decisive in shaping of urban patterns, while the role of private capital was minimal. Since market-oriented reforms were adopted, the role of the state has retreated while private capital both national and international has begun to play a significant role in urban development.

China’s unique reform process makes it an ideal place to explore the evolution of the state-capital relationship and how this evolution affects the urban development. Unlike East European countries where the whole political economy was drastically changed into the capitalist system through “shock therapy” (Gowan, 1995), China adopted a gradual approach whereby the economic system was transformed by gradually introducing market forces while the political system remained unchanged. The role of the state, although retreated significantly, still controls urbanisation processes. Meanwhile, private capital (mainly international capital) has grown greatly and plays an increasingly important role in urban development. The relationship between state and capital has developed to the extent that both state and

capital are indispensable in an adequate analysis of China's urban patterns. The argument that we should combine the two factors in constructing an explanation of urban changes in the western cities has become applicable to Chinese cities, thanks to 20 years of market-oriented reforms although the Chinese state is still far more powerful than its western counterparts.

This chapter has examined the economic logic in shaping urban development patterns through the analysis of Urban Political Economy in relation to the development of theories of capitalism. The next chapter will focus on the second logic – the role of the state in changing urban development patterns.

Chapter 3

THE STATE AND URBAN CHANGE

3.1 Introduction

The role of capital dynamics in determining urbanisation processes was examined in Chapter 2. This chapter is a substantial theoretical discussion of the role of the state in urban change. It starts with a brief review of state theories, which is followed by a discussion about the role of nation-states in today's increasingly globalised world economy. The role of the state, both at the central and the local level, in cities is then analysed respectively in capitalist and socialist countries by drawing on Gurr and King's (1987), and Komai's (1992) works. The chapter is concluded with an attempt to put Shanghai's urban development into the theoretical context that has been established in the previous analysis.

3.2 A brief review of state theories

The state is a commonly used word. However, there is no definition of the state that satisfies all. There are a number of state theories and all have their own definitions from different theoretical perspectives. One of the most well-known definitions of the state was given by Max Weber. According to him, "A compulsory political organisation with continuous operations will be called a 'state' insofar as its administrative staff successfully upholds the claim to the monopoly of the legitimate use of physical force in the enforcement of its order" (quoted in Shaw, 1997: 499). More recently, Anthony Giddens (1985) defines the modern nation-state as a "bordered power container". Their definitions of state, seen as the classic military-political based definition (Shaw, 1997), centred on the monopoly of legitimate violence in a given territory. The borders of states are not merely administrative divisions but potentially, at least, lines along which violence might erupt.

From an organisational point of view, Dunleavy and O' Leary proposed a more general definition of the state. According to them, the state is a set of governmental institutions, of relatively recent historical origin (Dunleavy and O'Leary, 1987: 1). "Government" here is used not in a narrow sense of administration; it is the process of making rules, controlling, guiding or regulating. As Dunleavy and O'Leary (1987: 1) point out: "Some form of government is intrinsic to human society, because a society which is totally uncontrolled, unguided and unregulated is a contradiction in terms. By contrast, the state -- defined organisationally -- is not intrinsic to human society." The state form of government -- nation-state emerged first in Europe in the mid-seventeenth century, and now there are some 170 nation-states in the world, embracing virtually the entire population of the world.

Dunleavy and O'Leary classify state theories under the following five headings: pluralism, the new right, elite theory, Marxist and neo-pluralist. Among those state theories, the class-perspective ones, notably Marxist and Neo-Marxist, particularly consider the relationship of the state and capital as one of their theoretical focuses.

From the viewpoint of the state-capital relationship, Carnoy (1984) has summarised class-perspective theories of the state as falling into three general categories:

- 1) the independent state theory, which views the state as substantially independent of capital and labour;
- 2) the capital logic (structuralist) theory, which views the underlying contradictions of capitalistic development as shaping the state;
- 3) the class struggle theory, which views the state as a product of concrete class struggles and as directly embodying worker demands. (cited in Feagin, 1984: 447).

To these three categories, Feagin contends that we should add a fourth category of traditional instrumentalists, who view the state as the instrument of capitalists acting as a governing class.

As discussed in Chapter 2, most Marxist theorists, in their analysis of the role of the state in the urban development, tend to adopt theories falling into the categories (2), (3) and (4), in which the state is seen as, more or less, derivative of economic processes (capital accumulation). Rejecting imputing an economically derived logic to state policy, some theorists using a state-centred perspective argues that the state

managers have a certain autonomy from economic processes which allows them to pursue their own interests (Evans, Rueschemeyer and Skocpol, 1985; Gur and King, 1987).

3.3 The typology of nation-states

One of the best known classifications of nation-states is, of course, the dichotomy of capitalist and socialist. A fundamental difference between capitalist and socialist lies in the role of the state in the society, particularly in the relationship of state and market. In capitalist countries, private capital is the major player in the economic domain and the management, adjustment and development of the economy are mainly left to the “invisible hand” of market. The main function of the state is to safeguard the proper operation of the market and the state is supposed to intervene only where the market fails. On the contrary, socialist countries are state-dominated societies. Private capital is eliminated and the state plays an exclusive role in all levels of economic activities. The economy is centrally planned and operated by the state-owned work units.

Despite different political economic systems, all states perform functions that are necessary for their own perpetuation. Dicken (1998), in his analysis of the role of the state in the world economy, sums up the three major functions that all states perform in today's world economy, and as such, nation-states could be categorised by the way they perform these three major functions. They are:

First, the nation-state acts as a container of a distinctive culture. All social activities are embedded in broader cultural structures and practices. One of the primary containers of culture structures and practices is the nation-state. The most important distinguishing characteristic of the nation-state is its territorial basis. Within its territory, the state is sovereign, holding ultimate legal authority and having the monopoly of force with which to impose that authority. Over time, “the national homeland became a cultural container...where national ideals are being reproduced in

schooling, the mass media and all manner of other social institutions” (Taylor, 1994: 155, 156). As a result, “ways of doing things” tend to vary across national boundaries.

The second function of the state is to regulate economic activities within and across its jurisdictions. No economy today operates under a pure “free market”. All states intervene in the working of the economy, only differing in the degree of significance of intervention. For example, all governments have their monetary policies for managing the money supply which have extremely important implications for the distribution and redistribution of economic activity. Dicken identifies three areas of policies that are particularly relevant for the state’s role in the international economy, i.e., trade, foreign investment and industry. Among these three policies, foreign investment policy is particularly concerned with the state’s role vis-à-vis international capital (see next section).

Third, states can be regarded as competitive states in which they take on some of the characteristics of firms as they strive to develop their strategies to create competitive advantage. One of the goals of nation-states is to maximise the material welfare of their societies. In an increasingly globalised world economy, nations are forced to compete with one another in a struggle to attain such goals. States compete to enhance their international trading position. They also compete to attract international capital to build up their national production base which, in turn, strengthens their international competitive position (see also Stopford, Strange and Henley, 1991).

To these three functions, it is important to add a fourth function that the state performs; that is, the nation state is itself a very important actor in the economic domain, both from the standpoint of producer and consumer. One characteristic of a nation-state is that it is recognisably separate from the rest of society, comprising a public sector which is distinctive from the private (Dunleavy and O’Leary, 1987). All states in the world have their public sectors, differing only in their degree of importance. In the economic domain, the public sector exists in the form of state-owned enterprises (SOEs). In same way private enterprises works, SOEs employ people, produce products and sometimes compete with other enterprises. The importance of SOEs differs from nation to nation, depending on the national

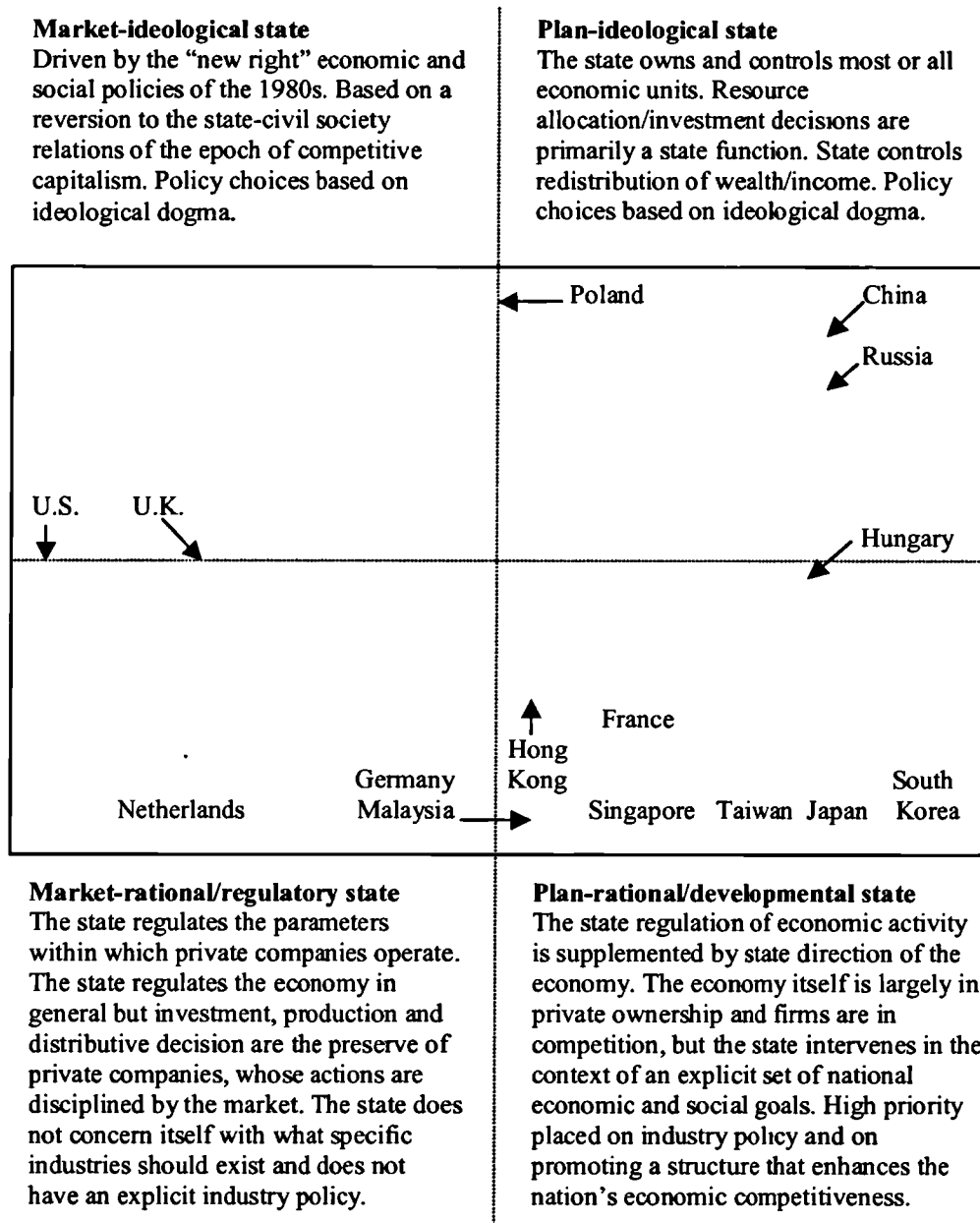
economic-political system. In state socialism, the national output is overwhelmingly dominated by SOEs while in market-oriented countries the SOEs' share is usually much lower. On the other hand, the state role as consumer is fulfilled through their fiscal policies. Using the taxes legitimately levied within their territory, the state builds the physical infrastructure of national economies -- roads, railways, airports, and telecommunications systems -- without which private sector enterprises, whether domestic or transnational, could not operate. The state is also the provider, through its public sectors, of the human infrastructure: in particular of an educated labour force as well as of sets of laws and regulations within which enterprises must operate (Dicken, 1998: 91; Johnston, 1993).

All states perform the roles described above. However, the way they play the role differs substantially from nation to nation, depending on the cultural, social and political structure, institutions and practices in which they are embedded. States can be categorised according to ways that they perform their roles. Based on Dahrendorf (1968), Johnson (1982) and Henderson and Appelbaum (1992), Dicken (1994, 1998) put forward a typology of national economic-political systems in the following figure (Figure 3.1).

Figure 3.1 summarises the basic features of each of the four ideal-types of system and locates some nation states within the matrix. The market ideological and the plan ideological refer to two extreme economic-political systems whose policy-making is entirely based on ideological dogma. The former is epitomised by the Reagan and Thatcher "new right" administrations that adopted policies solely on the basis of free-market ideology. The latter is equated with the state socialist countries such as Soviet Union and China before reform whose economy is centrally commanded (Dahrendorf, 1968). Between these two, we have economies of plan-rational states, notably Japan, South Korea, Taiwan and Singapore, and economies of market-rational states which many continental Western European countries fall into.

As indicated in Figure 3.1, the position of states should not be seen as fixed. Under certain circumstance, the state could change its economic-political system and therefore its place in the matrix. For example, China's reform policy in the past two decades indicates that China has been gradually moving from a plan-ideological state

Figure 3.1 A Typology of National Economic-Political Systems



Source: after Dicken (1994: 229)

into a plan-rational/developmental state. Indeed, with the collapse of the Soviet-led system at the end of the 1980s, there are fewer countries which can be placed in the plan-ideological category. On the other hand, although there was certainly a resurgence of the market-ideological state during the 1980s, led by the “new right”

governments in the United Kingdom and the United States, very few countries can now be placed in that category. As a result, the market-rational state and the plan-rational state are two dominant political economy models in the present world (Thompson, 1990; Feigenbaum, Henig and Hamnett, 1999).

It is important to note that plan-rational states are often referred to as developmental states as indicated in the figure 3.1. The developmental state is generally seen to have originated in Japan, subsequently spreading to other East Asian Newly Industrialised Economies (NIEs include South Korea, Taiwan, Singapore and Hong Kong). It is a state-guided capitalist developmental system, or to put it in different terms, a plan-rational economy with market-rational political institutions (Johnson, 1995). The implementation of China's reform policies in the past 20 years has convinced many scholars that China has emulated the developmental state model (e.g. Cheng, 1998; Simone and Feraru, 1995; White, 1991; White and Wade, 1988). Due to the importance of developmental state theory in this research, the theory and its application to China will be analysed in depth in Chapter 6.

3.4 Nation states and foreign direct investment (FDI)

In a world of transnational corporations and of complex flows of investment at the international scale, few national governments operate a totally closed policy towards foreign investment. In fact, nation-states have found themselves competing with one another in a struggle to attract inward investment which has become increasingly important for nation-states' competitive position in the world economy. Countries that used to see FDI as a threat to their capability of maintaining an independent economy have lifted regulatory barriers to the entry of FDI and joined the competition. This is particularly the case with socialist countries that have adopted market-oriented reform policies. When the Chinese government started reform policy in 1979, a central element of the new policy was the opening up of the Chinese economy to foreign direct investment (FDI).

Dicken (1998) summarises the major types of national policy towards foreign investment in the following figure 3.2.

Figure 3.2 Major Types of Foreign Direct Investment Policy

Policies relating to inward investment by foreign firms

- Government screening of investment proposals
- Exclusion of foreign firms from certain sectors of restriction on the extent of foreign involvement permitted
- Restriction on the degree of foreign ownership of domestic enterprises
- Insistence on involvement of local personnel in managerial positions
- Compliance with national codes of business conduct (including information disclosure)

- Insistence on a certain level of local content in the firm's activities
- Insistence on a minimum level of exports
- Requirements relating to the transfer of technology
- Locational restrictions on foreign investment

- Restrictions on the remittance of profits and/or capital abroad
- Level and methods of taxing profits of foreign firms

- Direct encouragement of foreign investment: competitive bidding via overseas promotional agencies and investment incentives

Policies relating to outward investment by domestic firms

- Necessity for government approval of overseas investment projects
- Restrictions on the export of capital (e.g. exchange control regulations)

Source: after Dicken (1998: 97)

Most national policies are more concerned with inward investment although there are some regulations on the export of capital as well. The inward investment policies listed in the figure fall into four broad categories.

The first category relates to the entry of foreign firms into a national economy. Governments may operate a “screening” mechanism to attempt to filter out those investments which do not meet national objectives, either economic or political. Also, there may be a restriction on the extent to which individual firms may be owned or controlled by a foreign enterprise. For example, the Chinese government regularly promulgates “the catalogue for the guidance of foreign investment industries” which has a clear-cut regulation on what industries can enter China. In the recent version promulgated on 29 December, 1997 (SFIC, 1994), FDI is divided into three

categories: encouraged, restricted and prohibited. Industries such as high-tech, advanced agriculture technology, and export-oriented are encouraged, those needing a special franchise from government are restricted while industries such as journalism, broadcasting, film and the like which are still monopolised by the government are prohibited. Meanwhile, in the catalogue, the communication, transportation and post-telecommunication sectors belong to the encouraged FDI sector, but in the areas such as construction and management of feeder railways, local railways and related bridges, tunnels, and ferry facilities wholly foreign owned enterprise are not allowed, whereas in the construction and management of civil airports the Chinese side shall be the holding party or play a leading role.

The second category of policies shown in the figure relates to the operations of foreign firms. A particularly common requirement is for such firms meet a certain level of the “local content” in their manufacturing activities. And very often a government may insist on a foreign firm exporting a specified proportion of its output. For example, according to the Act of Foreign Enterprises in the People’s Republic of China ratified on 12 April, 1986, foreign investment enterprises should maintain a balance between foreign exchanges revenue and expenditure through export of their own products. The Chinese government also pursued a gradual opening up of locations for FDI. FDI was first allowed in the Special Economic Zones (SEZs), and gradually the location was extended to 14 open cities in mid-80s and now most parts of the country are open to FDI.

The third set of policies relates to government attitudes towards corporate profits and the transfer of capital. All governments are concerned to minimise the outflow of capital; on the other hand, TNCs invariably wish to remit at least part of their profits and capital abroad.

The final category of policies aims to stimulate inward investment. An increasingly common feature of today’s world economy -- of developed as well as of developing economies -- is the scramble to attract foreign investment. Since the early 1980s, the Chinese government has introduced a series of preferential policies for foreign investment. The most frequently mentioned investment incentive, for instance, is “two years of tax exemption and three years of tax reduction by half”, that is, the

foreign-invested enterprise's income tax is exempted in the first two years after its establishment and in the following three years shall be levied with a 50% reduction.

3.5 Globalisation and the state: the rescaling of the state

As Amin and Thrift (1997) note, there are two major fears associated with the rise of globalisation. One is that the rise of a global field of action represents the end of geography. The other is that the rise of a global field of action represents the end of the nation-state. The latter is actually a question as to how to view the role of state within the global-local nexus which has seemingly increasingly escaped the hand of nation-states in the era of globalisation. With regards to this question, as Dicken (1998) points out, there are two opposite opinions.* One questions the significance of the nation-state as an important force in the world economy. For example, Kindleberger (1969:207) bluntly asserted that "the nation state is just about through as an economic unit". More recently, Ohmae (1995, inside front cover) claims that "Today's global economy is genuinely borderless". However, this end-of-the-state discourse of a borderless world has invited strong critiques. Shaw (1997: 498) contends that:

Globalisation does not undermine the state but includes the transformation of state forms. It is both predicated on and produces such transformations.

Yeung (1998: 291) argues that "despite the accelerated processes of globalisation, national boundaries still matter in the decision-making and global reach of capital". Weiss (1997: 27) takes it further, arguing that "the ability of nation-states to adapt to internationalisation -- so-called 'globalisation' -- will continue to heighten rather than diminish national differences in state capacity and the accompanying advantages of national economic coordination".

To understand the evolution of contemporary nation-states in the context of globalisation, it is necessary to grasp the huge variation which exists between the 170

* Weiss (1997) identifies four different hypotheses of globalisation and the changing role of the nation-state.

nation-states around the world. Robert Cooper (1996) has proposed a three-fold categorisation of contemporary nation-states as “postmodern”, “modern” and “pre-modern”. While the terminology may carry questionable theoretical overtones, it catches a division of states which is useful in understanding the nature of contemporary nation-states and their relations with globalisation.

First, within the west, nation-states are no longer classic nation-states according to Weber’s definition quoted above, which focuses on nation-states’ monopoly of legitimate violence in a given territory. They are “postmodern” in the sense that they are very fully articulated with transnational western and global power networks. It is in this group of states that globalisation has initiated and rippled through the world. It is also this group of states that researches and debates of globalisation have concentrated on. Of course, states vary enormously even in the group in the extent to which they deviate from the characteristics of traditional nation-states. The USA, Britain and France each retain a clear capacity for significant independent military action, while the Canadian, Benelux and Scandinavian states have largely surrendered their capacity for independent initiative to NATO and the UN. Western states are also variably embedded in more or less dominant positions in the wide range of global economic institutions (see also Gill and Law, 1988; Taylor, 1993).

Beyond the western state lie countries like the central and eastern Europeans, smaller East Asian and many Latin American and African states, which have weak autonomous power. They shelter under western power: they have no serious strategic options apart from closer relationships with the western-centred global institutions. The relations of western and these allied nation-states to regional and international organisations are increasingly institutionalised with the USA as the unchallengeable centre. The centrality of the USA in the new world order has been strengthened and confirmed in all serious global crises of the post-1989 period, from Kuwait to Kosovo. It has been claimed that the centre of the emergent global state is constituted primarily by the USA (Shaw, 1997).

The second major group of states consists of some major non-western countries, which correspond best to the classic model of the modern nation-states. These states include Russia and China as well as India and Brazil, and lesser powers such as Iraq,



Iran and Serbia. These states mostly acknowledge the reality of western global dominance by partial incorporation into western-led global institutions. For example, the adoption of market-oriented reforms and open-door policies by the Chinese government in the late 1978 means that China started to involve actively in western-led international organisations (the most recent development is China's accession to the WTO) after its three decades isolation from the world capitalist system. However, many of these states have a capacity of mobilising substantial military power which they may well use in confrontations with each other, and which may then result in their conflicts with the western-led global system.

The third category of state consists of countries where the state does not even reach the level of a stable nation-state, let alone full participation in global institutions. These "pre-modern" states include some African countries, former Yugoslavia, countries in the former Soviet Union and some parts of Asia. In these territories, state power is fragmentary, often based crudely on violence with tenuous legitimacy. In some cases state power has degenerated into warlordism and gangsterism (Afghanistan is a case in point).

Cooper's analysis reveals a general trend of evolution of nation-states in a globalising world, which has been called as the "denationalisation of the state" (Jessop, 1997). However, this trend is by no means limited to nation-states' loss of authority to supranational bodies or a reinvigorated and relatively unchallenged American superstate with capacities to project its power on a global scale as Cooper's research implies. It also involves the delegation of authority to subordinate levels of territorial organisation and/or the development of interlocal but transnationalised policy-making regimes (Jessop, 1997). From a geographer's point of view, Swyngedouw (1997: 170) suggests a revealing analysis of this trend which he called "the rescaling of the state". Swyngedouw argues that with the rise of globalisation, there is a shake-up in the scales of production and the scales of regulating reproduction. Globalisation provides unprecedented opportunities for Transnational Corporations (TNCs) to set up their own networks across the planet. More and more TNCs are becoming highly internationalised and globalised both organisationally and in terms of trade and other networks. However, these firm networks, be they industrial or service, have to be embedded in local/regional

institutional, political and cultural environments, co-operating locally although competing globally. As a result, TNCs have adopted new organisational strategies such as the embedded firm (Grabher, 1993), vertical disintegration (Scott, 1988), strategic alliances and so on. Companies are simultaneously intensely local and global.

Facing this rescaling of production, nation-states have to rescale their levels of governance in order to keep pace with the changes in the production processes and inter-firm networks. For example, the bureaucratic regulation of the wage nexus at the scale of the national state became more problematic as a significant part of the production system became supernationalised. As a result of the rescaling, there is a tendency for the “hollowing out” of the national state, both downwards and upwards, that is, the simultaneous internationalisation and decentralisation/devolution of the key policy/regulatory/economic issues (Swyngedouw, 1997: 172). Institutions such as NAFTA, GATT and EU in particular are testimony to the process of upscaling of the state. The national state has also been rescaling downwards to the level of the city, or the region, where the local government is supposed to have better on-the-ground knowledge to deal with the localised or regionalised production complex, and where the public-private partnership shapes an entrepreneurial practice and ideology needed to successfully engage in an intensified process of inter-urban competition.

However, the rescaling of the state does not suggest a diminishing role of the state apparatus. The rescaling of the state takes place through the formation of new elite coalitions on the one hand and the systematic exclusion or further disempowerment of social groups already weaker, politically and/or economically, on the other. In the process of rescaling, power and control over public funds and state capital is increasingly diverted to a small elite who shape the urban and regional fabric in their own image and fashion, and define the very content of the restructuring process. Therefore, rather than diminishing the state apparatus, the “glocalisation” or rescaling of institutional forms leads to more autocratic, undemocratic and authoritarian (quasi-) state apparatus (ibid.).

Neither does the rescaling of the state mean the national state does not matter any more. The “hollowing out” of the national state is the national government’s

response to the new situation stemming out of the globalisation in which the circulation of capital spiralled out to encompass even larger spatial scales. Globalisation may have increasingly exposed the local to the global forces directly, but a critical determinant of local economic development is still the dynamic power relationship between transnational corporations and national states (Dicken, 1994). As Dicken (1994:247) points out,

Although much depends on the extent to which a national political system is centralised or decentralised, virtually all effective bargaining power lies, not at the local level, but at the national level, or in cases like the EC, at a supranational level. To that degree, therefore, the prospects of local economies will be influenced as much, if not more, by national policies as by local actions. Within the global-local nexus, the key interactions in a power sense, remain at the level of the TNC and the nation-state; in that respect, the “seriously local” is a serious problem whose solution requires a broader policy framework.

In a world in which the capital-labour nexus is still nationally regulated, nation-states still have a capacity of countering this “hollowing out” effect. This can be seen apparently in the survival of the national state as the principal factor of social cohesion in societies and its associated role in promoting social redistribution. The nation state remains the most significant force in shaping the world economy. The roles of nation-states as culture containers, economic regulators and economic actors are basically intact. What has been changed is the way they perform these basic functions. In other words, the real question is not whether the state is subsumed under global forces, but rather how the state adapts and reorganises its capacities to meet the challenges of globalisation (Weiss, 1997; Yueng, 1998).

3.6 The state in capitalist cities

Although there are a number of state theories, a systematic analysis of the state-city relationship can be barely found. Apart from articles by Fainstein et al (1983), Feagin (1984) and King (1987), which have been discussed in Chapter 2, Gurr and King’s work (1987) is one of the few theoretical-informed accounts of the role of the state in capitalist cities. This and the next sections draw heavily from their book *The State*

and the City. Their basic argument is that national and local states have their own distinctive interests in cities and have significant autonomy in how they pursue them. This autonomy allows the state to play an important role in the shaping of urban patterns. The thesis of the autonomous state distinguishes them from most urban political economists who see the state as an essentially dependent factor of the dominant economic interests in urban development.

According to them, the state has two kinds of interests in cities: primary and expedient. Primary interests refer to those that are essential to the perpetuation of state institutions and authority. Specifically, it is in the primary interest of the state to establish public order in cities, to secure acceptance of the state's authority among urban populations and to maintain durable and adequately-financed institutions of local governance. In pursuing the primary interests, the state officials have often found it expedient to assume responsibility for providing various special and general collective goods and services for urban populations. Expedient interests are therefore those pursued because they are useful to the attainment of primary objectives, for whatever historical, structural or ideological reasons. In pursuing these two interests, the state activities can be divided into two broad categories (King, 1987).

The first set of activities refers to these actions undertaken by the state in cities related to its own persistence. According to Eckstein (1971), a national state's effective political performance depends on its ability to maintain civil order, legitimacy and durable political institution of state authority. Cities are clearly the central location to achieve these purposes, because western countries are preponderantly urban societies. Most people live in cities, public revenues come disproportionately from urban sources, most social and political movements have urban origins, and the vast majority of public officials live and work in cities. If the state cannot restrain conflict and maintain its authority in cities, it is unlikely to be able to do so anywhere. In consequence, state policies concerned with their own perpetuation, notably policing and education, are mainly carried out in cities.

The second set of urban activities undertaken by the state refers to those actions and public policies necessary for the perpetuation and vitality of municipalities. The first type of these activities is the provision of collective consumption goods. Collective

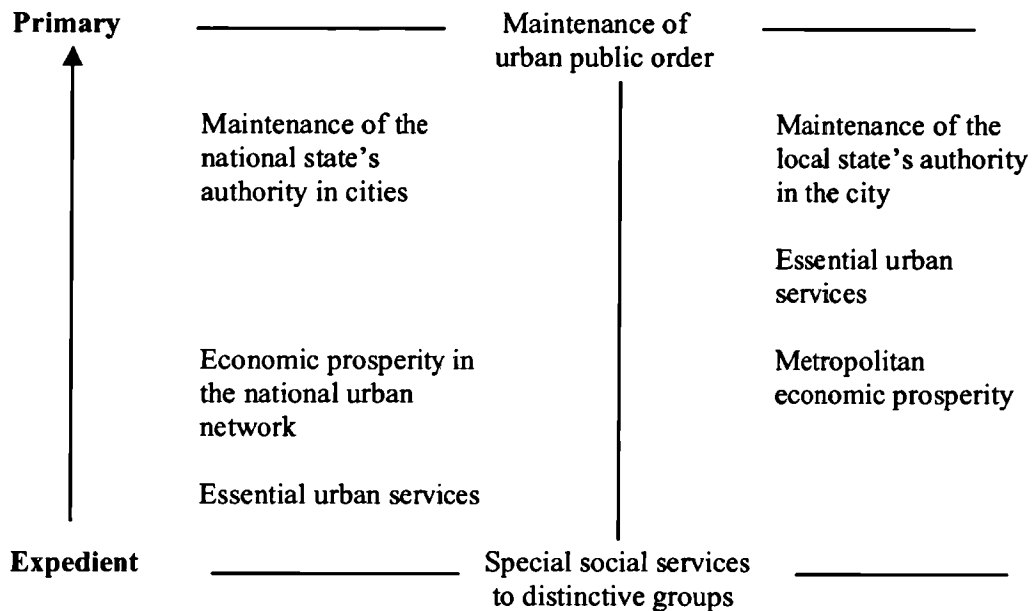
consumption goods refer to the basic, indispensable urban services which have become commonplace in contemporary urban environments, including public health, water supply, streets, fire protection and refuse collection. These collective goods are necessary to the survival of cities but cannot effectively be provided by the market place. It is in the primary interest of the local state to provide some minimum levels of these urban services, and it is in the expedient interest of the national state to ensure that local states have the means to do so.

Apart from these essential urban services, the state also provides special social services at the municipal level that are designed for the disadvantaged, such as unemployment benefit, family allowances, welfare and medical help. The primary purpose served by the provision of essential and special collective goods is to minimise civil disorder and to enhance public acceptance of the state's authority.

The last group of activities provided by the state at the municipal level are urban developmental policies. Developmental policies are designed by the state to enhance local productivity levels and to promote entrepreneurial activity which in the long run build a sound local economy and expand the national revenue base. In general, the promotion of economic activity is of primary concern for the state because of its needs for revenue. This is particularly so for local states which are heavily dependent on locally-derived revenues. Local governments have become increasingly active in pursuing developmental policies since the late 1970s when urban governance started to shift from managerialism to entrepreneurialism. This has put local governments in a more aggressive competition with other cities, first to attract new investment and, second to increase their share of extra-local revenues.

Gurr and King (1987) summarise the state's interests in cities in Figure 3.3, with emphasis on the points of divergence between the national and the local state. Both the national and the local state have a common, primary interest in the maintenance of public order and the state's authority in cities. However, the local state is more concerned with the maintenance of essential urban services and the economic wellbeing of the city than is the national state, which is interested more in the aggregate wellbeing of the urban system than of individual cities.

Figure 3.3 Interests of the National and Local States in Cities



Source: Gurr and King (1987: 41)

3.7 The autonomy of the local state in capitalist cities

A general definition of the local state is provided by Johnston (1982: 187): "the term local state applies to any non-sovereign body concerned with the government of a constituent area of a sovereign state". In this thesis, the local state refers specifically to municipalities, and in China's case it is used to refer to subnational governments including provincial governments and centrally controlled municipalities such as Shanghai.

If the state is important at all in cities development, then the local state has intrinsic importance because it is a key point of contact for most citizens with the apparatus of the national state structure, whether in federal or unity political systems. However, unlike the sovereign nation-state, the local state is a distinct administrative apparatus with some power and authorities within the overall state structure, and therefore, it has more constraints on its autonomy. Gurr and King (1987) identify two sets of

constraints on the local state as: (a) limited economic resources and (b) political control by other elements of the state, whether vertically or horizontally located.

The first set of constraints concerns the local state's autonomy from local economic and social forces. More specially, the conditions most likely to constrain local state autonomy are of three kinds:

1. Limits on the revenues which can be extracted from the local economy;
2. Resistance of dominant local interests to the policies of the local state; and
3. The activities of locally-based (or focused) political organisations and social movements which aim at reshaping the content of local public policy or at thwarting its implementation. (Gurr and King, 1987)

The local state needs revenues from the local economy to ensure its perpetuation. However, the local state's revenue-raising capacities depends on the local economic situation and the statutory stipulations as to what within its jurisdiction is taxable and how much it can be taxed. The local economy is a much more open system than the national economy, and as a result, the link between the local state and the local urban economy is much less direct than that between the national state and the national economy. This means that there are sharp constraints on the local state from powerful economic interests outside the state including corporations, banks, developers and labour unions. They are either locally based or agents of national or – in the case of corporations – transnational organisations. These interest groups are very powerful in influencing the content and execution of the local state's policies. Molotch's (1976) analysis of the city as a "growth machine" shows how powerful these interest groups can be in shaping the urban policies in the United States. According to him, interest groups, particularly the local political elite and land developers united in pursuing the objective of growth and drove the local state behaviour towards entrepreneurialism. This alliance for the growth is so strong that the growth has dominated the municipal political agenda in the United States since the eighteenth century.

The second set of constraints on the local state comes from the national state. National state constraints have traditionally taken two main forms. The first are

constitutional and legal constraints which are formally stated and embodied in explicit institutional arrangements. Such formal constraints vary from country to country, particularly across federal and unitary systems. Generally, in the federal system like the US, municipalities have less constraints from the national state than do those in the unitary political system such as Britain. This formal constitutional difference is much modified by administrative and political practice. This leads to the second type of national constraints upon the local state, i.e., those administrative constraints that emerge from the intrinsically political nature of the national-local state relationship. The day to day administrative interaction between the national and the local state is very much associated with the political culture that is historically formulated. For example, because a highly centralised power structure has been practised in China's political system for over two thousand years, local state autonomy in China may be far less than suggested by formal administrative arrangements.

3.8 The state in socialist cities

Socialist cities refer to cities in a particular political economy that is widely known as state socialism. The term of state socialism is used to describe the social system that developed in Russia after 1917 and was variably achieved in many countries after 1945. At its peak, twenty-six countries were believed to adopt this Soviet-type system, with its population accounting for one third of the world total (Kornai, 1992). Despite the various forms in practice, according to Harloe (1996), state socialism has three principal features in common:

These features, were, **first**, state monopoly ownership of the means of production and of most of the means of collective consumption as well, together with the substitution of centralised planning for market-led distribution of investment, incomes and consumption goods and services. **Second**, there was the political domination of the Communist Party, acting through a centralised state apparatus, which sought to control and order every aspect of social, economic and political life. **Finally**, there was the development of a distinctive class structure or socialist rank order, with the elimination of the bourgeoisie as a distinctive social category, the creation of a modestly differentiated broad "middle mass" of the population, a politico-military, industrial and intellectual elite, and an equally limited stratum or

“underclass” of those who were excluded from the mainstream of society (Harloe, 1996: 4, emphases added).

Among these three features, the political domination of the Communist Party is the most important feature that distinguishes state socialism (hereafter “state socialism” and “socialism” are interchangeable) from capitalism in terms of political structure. Socialist countries have a one-party system in which no other party can operate.* In this one-party system, the activities of party and the state are closely interwoven in a way that ensures that the party is the dominant force in their common activities. Kornai (1992: 37-38) identifies three political arrangements whereby the party ensures its control of the state:

1. All major appointments, promotions, and dismissals are decided upon by the various bodies of the party. This applies to all three branches of the state: the government, the legislature and the judiciary. In case of the normally elective positions such as the member of the parliament and the head of the local government, party committees decide who will stand for. Since in most of the cases, there is only one candidate for each seat, the practical result is that the representatives are selected by the party.
2. The party organisation reach decisions on every major affair of state before the state organisation responsible has come to its own decision. The major decisions of the government are preceded by resolutions of the party’s central leadership or Political Committee, those of county councils by resolutions of county party committees, and so on.
3. The party apparatus is in direct touch with the apparatus of state. The effect is a curious kind of duplication in which a specific party functionary or group of functionaries within the party apparatus has responsibility for every important sphere of state activity. The central party apparatus contains departments responsible for industry, agriculture, education, culture, foreign affairs, military matters, and so on. This arrangement allows the party apparatus to set guidelines

* In China, eight other “democratic parties” exist formally, but they have no actual power or even independent influence over political matters.

and policies for various spheres and oversee how the parallel state organisation implements them.

Clearly, although the state and the party nominally assume different constitutional responsibilities, i.e., the party performs political functions and the state administrative ones, one cannot separate them in the political practise. As a Hungarian ideologist sharply points out: “The party and the state are not one, but they are not two either” (cited in Kornai, 1992: 37). No wonder some authors employ the term “party-state” to depict this peculiar state-party relationship in which the Communist Party is actually superior to the state.

In its formal constitution, laws and legal regulations, the state under the state socialist system resembles any other modern state. It is divided into three separate branches: a legislature, a state administration (government), and a judiciary. The members of the legislature (parliament) are elected by the general public. Parliament then nominates the government. Local legislatures (local councils) operate in each territorial unit. These local councils are independent within limits laid down by the law and have their own executive organisations (Kornai, 1992: 37). All these political arrangements appear to be similar to those in capitalist countries.

With regard to the state-city relationship, as in the capitalist state, the socialist state has its primary and expedient interests in the city. The soviet system was born as an immediate consequence of an urban-based struggle for dominance. Cities are the central location for the prosecution of all state functions. Even in a country like China where the majority of population live in the countryside, cities are still the critical places for state policies to be carry out, because modern economic sectors, social and political activities, and state institutions are concentrated in cities. The acknowledgement of the importance of cities was reflected by the fact that the socialist China provided a welfare system that covered only the urban areas, while the rural areas were basically ignored. Therefore, it is in the primary interests of the socialist state to maintain public order and state authority in cities so that its own persistence can be secured. In order to maintain its own perpetuation, the socialist state will undertake all necessary activities such as the provision of collective consumption goods in cities.

This said, however, an essential difference exists between the capitalist state and the socialist state in the process of pursuing their primary interests – the maintenance of the state’s authority and the use of authority to maintain order. “Authority refers to the state’s capacity to secure public compliance with officials’ directives by invoking legitimacy – the state’s right to obedience – rather than sanctions” (Gurr and King, 1987: 31). Most capitalist countries have a political system that is well known as liberal democracy. According to Dunleavy and O’Leary (1987: 5-6), “Liberal democracy is a system of representative government by majority rule in which some individual rights are nonetheless protected from interference by the state and cannot be restricted even by an electoral majority”. In a liberal democracy, state legitimacy is based on the mandate given by the majority of people in the elections that take place periodically. The legitimacy of the socialist state, however, stems from the socialist revolution, or in cases of most East European countries was imposed by the Soviet Union, and the maintenance of legitimacy is mainly achieved through the highly centralised Communist Party system that penetrates into the every corner of the society.

The high reliance of state legitimacy on the party, together with the centrally planned economic system, put the state into an extremely powerful position in society. In capitalist countries, although the state is the most powerful social organisation, its intervention in civil society is considerably constrained, economically by market forces, socially by other civil organisations, and ideologically by liberals who view the state as a potential threat to individual’s rights. On the contrary, in socialist countries, state ownership replaces private ownership and plan replaces market, the party controls all social organisations, and the official ideology of Marxism-Leninism excludes all others. In a word, the state is ubiquitous to the exclusion of any other organisation.

With regard to the city, because state organisations, and primarily the central organs of government and party, take control over such matters as land ownership, land use, the degree and direction of industrialisation, capital investment in all sectors, and at all levels of economy, rents, wages, prices and even (in certain periods and in certain places) movements of population, the state has a far greater power to determine the pace and the form of urban development than that wielded by any western

government, central or local (French and Hamilton, 1979). Indeed, most scholars believe that the power of state is so formidable that a socialist city has been created which is a distinct, special phenomenon, more or less sharply differentiated from the capitalist city (ibid.).

While the central state has a decisive power in shaping urban patterns, the socialist local state has little autonomy in determining urban development. In capitalist countries, the power structure of the central-local state is embodied in and protected by institutional arrangements, and the local state has significant, though variable, autonomy from the central state. The mayor of the city (or the governor of the state), elected by the local people, represents local interests in relations with the central state or other local governments. One may find a similar institutional arrangement in the local-central state relationship in socialist countries. However, this formal structure of power between the central and local state in socialist countries exists only in a nominal sense, because the party decision overrides any other institutional arrangements. Despite the nominal election involved, all heads of local states are in fact selected by the central party committee. As a result of this centrally party controlled system, socialist countries, be they a federal system like the USSR or a unitary system like China, are all central-state dominated. Local states have little autonomy and constitute little more than agencies of the national state. Selected by the central organ of the party, heads of local states are concerned with instructions and plans from the central state more than the local interest. It has been observed that local leaders in socialist China were not susceptible to local politics (Lam, 1996). As a result, the socialist local state plays little role in urbanisation processes, and urban patterning results mainly from the central government's urban policies.

3.9 The state, capital and Shanghai's urban development

Chapter 2 and the above analysis in this chapter tried to establish a theoretical framework in which Shanghai's urban change can be analysed. The theoretical framework is political economy, but it is an urban political economy which takes into account the significant role of the state in the shaping of urban patterns. This urban

political economy provides two very important insights for the understanding of urban change in general and Shanghai's current urban restructuring in particular.

First, any city's urban change cannot be fully interpreted without setting it in a broad historical context. "Urban restructuring is associated with a major redirection of secular trends induced by severe shocks to pre-existing conditions of urban growth and development" (Soja, 1991: 361). It is a period when the old and the new, the inherited and the projected order are juxtaposed at the same place in a special way. We cannot understand a city's change by only looking at the present situation. Every city has its own history. In this case, Shanghai's urban restructuring in the post-reform era cannot be properly understood without considering its urban structure in the pre-reform era which developed out of the pre-existing structure before the communist party took power in 1949. Therefore, in order to analyse Shanghai's current urban restructuring, we have to take into account Shanghai's historical evolution.

Compared with other megacities in the developing countries, Shanghai's uniqueness reflects three aspects. First, modern Shanghai is a direct outcome of the expansion of the world capitalist system in the 19th century (Wallerstein, 1979; King, 1989). In other words, the transformation of Shanghai from a feudal commercial town to a capitalist city is the outcome of the incursion of the external forces rather than a natural evolution from within. Defeated in the "Opium War" with Britain in 1843, the Qing dynasty was forced to open five port cities including Shanghai to western trade and residence. While the whole country was still under the reign of the Qing dynasty, the international settlement in those "treaty cities" was a semi-colonial enclave where modern capitalism prospered under extraterritorial protection. It was in the international settlements that modern capitalist Shanghai was formed.

Second, the development of capitalism in Shanghai was interrupted by the victory of the communist party in 1949. Following the civil war, capitalist Shanghai was revolutionalised into a socialist city. Third, unlike urban restructuring in capitalist countries which results from the evolution of capitalist economic development, contemporary Shanghai's urban change is based on the state socialist system. Unlike urban restructuring in the East European countries where the political economy was

drastically changed into a capitalist system through “shock therapy”, Shanghai’s urban transformation is occurring as China reforms state socialism towards a market-oriented economic system in a gradual way. After 20 years of market-oriented reforms, China in general and Shanghai in particular is no longer a traditional centrally planned economy. But neither is it a pure capitalist economy. Officially it is called a socialist market economy which means that the market mechanism works in the framework shaped by the communist regime. So, from feudalism to capitalism to socialism to post-socialism, Shanghai has experienced a distinctive path in urban development. It is in such a historical context that Shanghai’s urban restructuring should be understood.

The second insight provided by urban political economy is that city’s change should be interpreted in a broad geographical context. It is not possible to understand a city’s change by looking only at the city itself. Contemporary urban restructuring is the outcome of interplay of forces at work at regional, national and global scales. As Massey (1993) and others argue, any adequate explanation has to set the city in its wider geographical context. In Shanghai’s case, two different scales have to be taken into account as well as the local: the national and the global. Shanghai’s urban changes in the post-reform era can and should be traced to the changes of the wider political economy in China since the Chinese government adopted the reform policy in 1979. After the communist party took power in 1949, it established an authoritarian socialist system in which the vertically-controlled communist party system penetrated every corner of society and in which local government had little power over local affairs. It was also a system which was fundamentally isolated from the world capitalist system, which had not changed until 1979. Under such a political economy, it would be impossible for Shanghai to make any significant change without a tremendous shift in the central government’s policy (more precisely, the Communist Party’s political line) in the first place. Therefore, the first step to approach Shanghai’s urban change is to understand the development of China’s reform policy.

China’s “door” was opened when the process of globalisation speeded up at all levels in the world. While the Chinese state gradually retreated, international capital, attracted by the most populous market in the world, quickly stepped in and began to

penetrate the economy and society. In many ways, Shanghai's urban restructuring has been and is shaped by the dynamic interplay of the state and international capital over the control of production and market.

Both historical and geographical dimensions are important in the understanding of Shanghai's urban change. In the chapters which follow, an interpretative framework that combines not only the two underlying factors -- capital and the state but also the historical and geographical dimensions -- is employed to examine Shanghai's urban development since modern Shanghai emerged at the mouth of Yangtze River in the late 19th century. Based on the relevant historical researches (Bergere, 1981; Murphey, 1953; Wei, 1987), I divide the history of modern Shanghai into six periods:

- 1) The formation of modern Shanghai (1842-1895)
- 2) The golden age of Shanghai (1895-1927)
- 3) Nationalist Shanghai (1927-1937)
- 4) The end of Shanghai's international status (1937-1949)
- 5) Socialist Shanghai (1949-1979)
- 6) Post-Socialist Shanghai (1979-present)

During these historical periods, different factors affecting Shanghai's urban development have waxed and waned. However, as the above analysis suggested, capital and the state are two underlying forces in the history of Shanghai's urban development, and the ever changing relationship between capital and the state is the main nexus which cuts across all periods and from which Shanghai's urban development can be better analysed. In the next chapter, we will see how changing relationships of capital and the state determined Shanghai's urban development patterns in periods prior to 1949.

Chapter 4

THE URBAN DEVELOPMENT OF SHANGHAI BEFORE 1949

4.1 Introduction

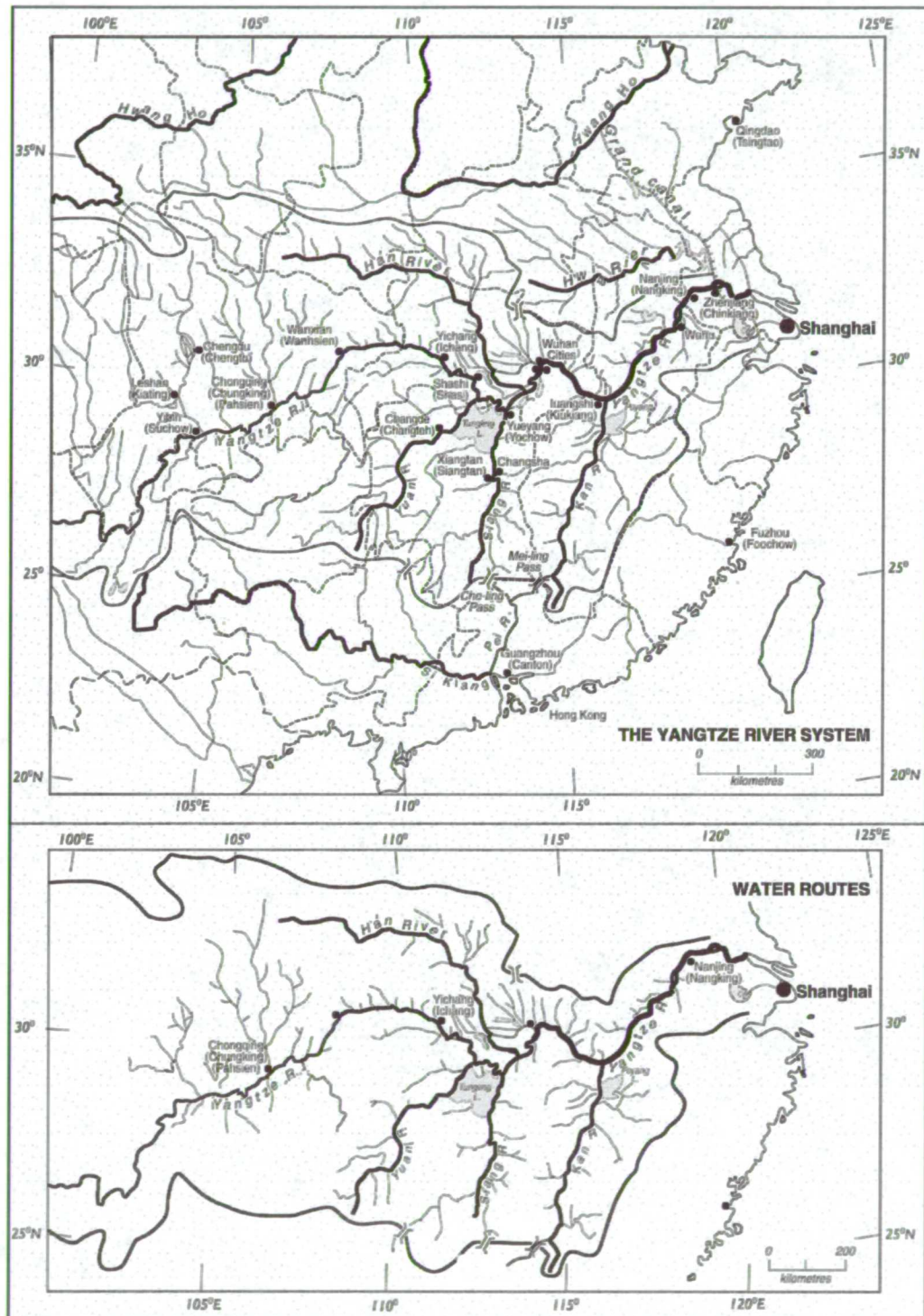
This chapter is concerned with the urban development of Shanghai before 1949. Four historical periods -- the formation of modern Shanghai (1842-1895), the golden age of Shanghai (1895-1927), Nationalist Shanghai (1927-1937), and the end of Shanghai's international status (1937-1949) -- are examined by focusing on the role of the state and capital in the shaping of Shanghai's urban patterns. The final section gives four schematic diagrams of key state-capital relationships that underlie each period of Shanghai's urban development.

4.2 The formation of modern Shanghai (1842-1895)

Shanghai is located at the confluence of Huangpu River and Suzhou Creek and connected to the Grand Canal, only a dozen or so miles from the point where the Huangpu River entered the estuary of the Yangtze. It is also situated at the middle point of China's east coastline, with the Yangtze delta, one of China's most affluent areas, as its hinterland (see Figure 4.1 and Figure 4.2). With such a geographical advantage, Shanghai had been an active port in Chinese coastal and inland trade for several centuries. The name "Shanghai", meaning an embarkation point, is first recorded in documents of the Song dynasty. By 1264, Shanghai became a county seat (White, 1981: 21).

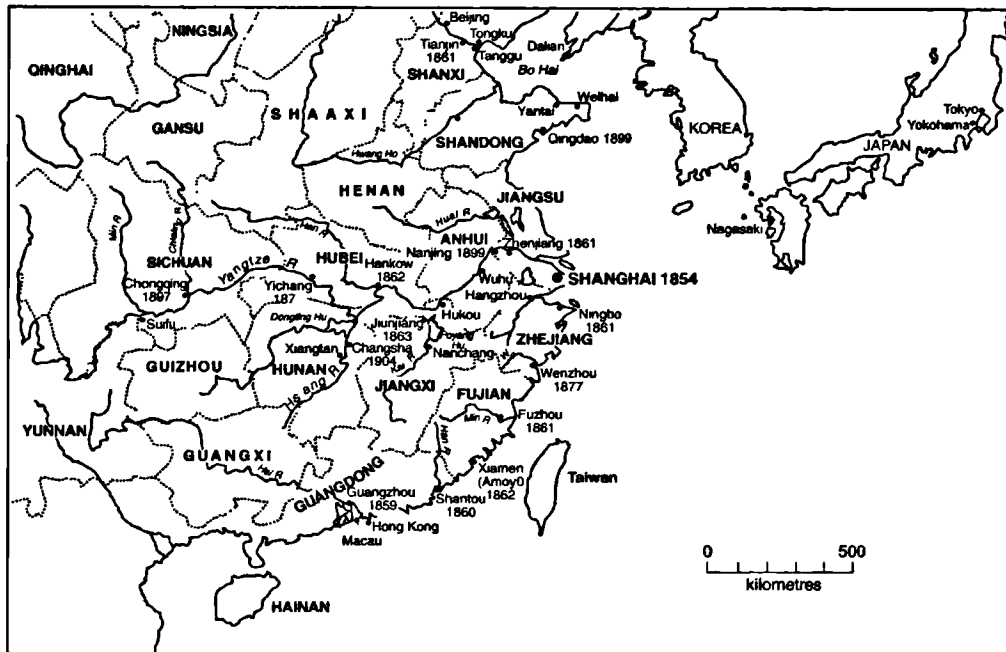
Through a continued dependence upon cotton, silk, porcelain and transportation, the city had developed as a prosperous feudal commercial town by the sixteenth century,

Figure 4.1 The Yangtze River System



Source: adapted from Murphey (1953: 46)

Figure 4.2 East Asia



Note: Dates refer to the opening to foreign trade as ports of the cities as indicated.
Source: adapted from Murphey (1953: 5)

and reached its pre-colonial apex in the late 17th century when it “had become one of the world’s greatest ports, with a forest of masts and a volume of shipping equal to or greater than London’s” (Pan, 1993).

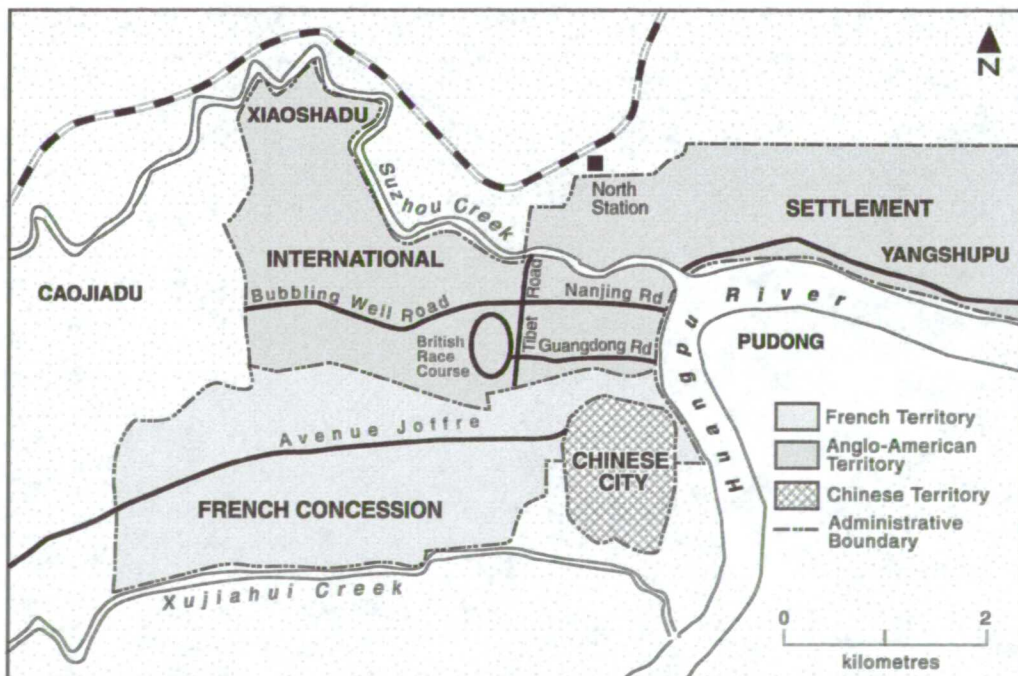
However, the modern history of Shanghai did not start until it was forced to open to international trade and residence in 1843. Defeated in the Opium War, the Qing dynasty signed the Treaty of Nanjing with Britain on August 29, 1842. In the treaty, Shanghai together with other four ports on the Chinese coast was designated as a Treaty port, opening to British traders and giving British nationals the “convenience of abode” (Wei, 1987: Introduction). The treaty also stipulated that the Chinese government was to accept extraterritoriality and to refrain from interference with British trade. Other powers, including France and the US, gained similar concessions from the Chinese government.

The Treaty of Nanjing, however, was signed mainly for commercial reasons. Under the treaty, China conceded no territory in the treaty ports. At first, most Westerners resided in Chinese houses within the walled city. With the number of foreigners

increasing considerably, in order to restrict the area in which the foreigners might lease, the local Chinese mandarin wanted foreigners to move to a designated area outside the wall. In Shanghai, the agreement negotiated between British consul and Chinese governor (*Daotai* in Chinese) on November 29 1845 became the first “Land Regulations”, the basic law of the foreign area, in which a specific area for the foreign settlement was designated (White, 1981: 22). This designated area developed by stages and eventually formed the International Settlement. Similarly, the French obtained their settlement beside the north wall of the Chinese City on April 6 1849 which was inaccurately titled “French Concession” (ibid.). These three components, the Chinese City, the International Settlement, and the French Concession, were separate administrative units each with their own laws and officials, as well as the surrounding towns and countryside which in time became absorbed into the metropolis, were known to the world at large as Shanghai (see Figure 4.3).

While the Chinese walled city was still a county seat under the Qing dynasty, the first non-Chinese municipal government in China – the Municipal Council was established in the International Settlement in 1854. It was a liberal, if not democratic,

Figure 4.3 Shanghai circa 1919



Source: adapted from Perry (1993: 16)

government elected by taxpayers, not by the official consuls. It was in theory subordinated to the “Court of Consuls”. The “Court of Consuls” was a subcommittee of the “Consular Body”, comprising the emissaries in Shanghai of all nations that had extraterritorial treaties with China (ibid. 31). The municipal council initially had five members, but in 1866 its powers were somewhat amplified and its membership was increased to nine. No Chinese actually sat on the municipal council until 1928.

The Municipal Council was a typical “growth coalition” comprising the members most of whom had local business interests. As White (1981: 32) points out, “It was deemed important to preserve the collegial nature of the local decision process; so this city-state never had a chief executive. Its political structure was not just international; for the sake of peace and commerce, it was carefully kept non-national.” The *raison d’être* of the Municipal Council was business. Decisions were made in a low-cost, low-key manner. Necessary work was handled in small bureaucracies, overseen by the Municipal council's functional committees.

The administration of the French area proper, unlike that of the international sector, had a strong chief executive: the consul-general. While an advisory council was established, only half its members were elected and the other half was appointed by its president, the consul-general. In constitutional form, it was practically a small dictatorship.

Whatever forms the governments took, it was in the international settlements that world capitalism set up a beachhead, in which the modern idea of government as well as western advanced technology and the modern urban amenities made their debut in China. The first telephone wires were laid between Shanghai and Wusong in 1865, and in the same year the gas street lighting was installed in the International Settlement. In 1882, electric lighting was introduced in public gardens, and a public tram service was opened in 1908 (Howe, 1981: 413).

The second half of 19th century was a period of social disorder and chaos for China, but Shanghai, due to its international status, remained relatively peaceful. Many storms of war swirled around Shanghai, but not in it. The Taiping Rebellion swept over 18 provinces in southern China during 1850 -1864, and about the same time the

Small Sword Society, a secret society opposed to the Manchu government, occupied Chinese Shanghai and the nearby counties. Fighting the Qing imperial army, neither of them entered the international settlements. During the Sino-French conflict of 1884-85, both sides had a tacit agreement not to attack each other around Shanghai. And in Sino-Japanese War of 1894-95, Britain was able to secure from her Japanese ally a promise that the city would not be touched (White, 1981: 39).

Under the protection of the international presence and with the construction of the modern urban infrastructure, international commercial capital prospered and Shanghai was rapidly transformed into a modern entrepot city. Because Westerners were not allowed to set up factories in China until 1895, the main function of Shanghai was domestic and international trade. During this period, China's foreign trade was dominated by the export of tea and silk and the import of opium. For all of these three great trade commodities Shanghai was advantageously located. The major silk-producing regions of China lie in the lower Yangtze basin. Tea for export was grown primarily in the belt of hills which forms the Yangtze divide on the south, and waterways connected the northern slopes of this region with Shanghai more easily and directly than any other ocean port. Opium could be distributed domestically to greater advantage from Shanghai, via the Yangtze, than from any other coastal port. Meanwhile, foreign trading firms many of which used to locate in Canton moved in, attracted by Shanghai's advantageous location. In 1846, within three years of its opening, 16 per cent of China's export trade passed through the city, and by 1861 its share was 50 per cent. By 1870, Shanghai was responsible for 63 per cent of the total external trade of China by value, as against 13 per cent for Canton, still its closest competitor (Murphey, 1953: 65). Shanghai rapidly established itself as the indisputable leading port and commercial city of China.

4.3 The golden age of Shanghai (1895-1927)

Shanghai remained almost exclusively a trading city until China signed the Treaty of Shiminoseki with Japan in 1895. The treaty, which ended the war of 1894-95 between China and Japan over Korea, first granted to foreigners the right to establish

factories in the treaty ports of China. The consequent investment of transnational capital together with the rapid growing local capital led to the industrialization of Shanghai.

This golden age can be divided into two periods: the period of foreign enterprises which spanned the years from 1895 to the beginning of the first world war in 1914, and the period of flourishing private enterprises from 1914 until 1927 when the Nationalist Party unified China.

Foreigners took the opportunity and led the first wave of industrial investment in Shanghai after the signing of the Treaty of Shimonoseki in 1895. For example, cotton mills like Ewo and Lao Kung Mao of British Nationality, Hung Yuan, owned by American interests, and Jui Chi, a German concern, came into existence one after another (Lieu, 1936: 21). Cotton mills were then followed by the other modern industries such as flour mills, oil mills, machine-manufacturing factories and the like.

At the time when foreign industrial capital first appeared, modern industry in China was still in an inchoate state, and the most industries were managed by the government. China's modern industrial history did not start until the government built an ammunition factory in Shanghai in 1862. Five years later, the first modern dockyard – Jiangnan Dockyard was established in Shanghai, which was followed by the establishment of Jiangnan Arsenal in 1867. This early period from 1862 to 1877 was characterized by the emphasis on arms and ammunition manufacturing – one direct result out of the defeat in the Opium War. Lieu (1936: 19) calls it “the period of ammunition manufacturing” in his seven-period classification of China's industrial development. The following period, which lasted 1878 to 1894, was designated as “the period of the commercial commodities manufacturing” in which the manufacture of articles of daily use, particularly textile industries flourished. But as in the previous period, industrial enterprises were mostly initiated by the government and many of them did not produce satisfactory results.

The arrival of foreign direct investment brought western advanced technology as well as the modern management into the treaty ports, which had a profound impact on China's economic development. Many Chinese entrepreneurs, emulating the

success of these foreign enterprises, began to raise funds for establishing similar modern factories. Thus private capital started to develop. This infant Chinese national capital was given a huge boost by the removal of foreign competitors in the First World War that gave rise to what was referred to as “the period of flourishing private enterprises” (Lieu, 1936).

During and immediately after the First World War (1914-1918), imports from Europe and America declined dramatically while Japanese goods were boycotted due to the conflict between China and Japan over the Twenty-One Demands and the handover of Tsing-Tao from German to Japan by the Versailles Conference in 1919. The Chinese manufacturers therefore enjoyed almost a monopoly of the home market which was growing fast at the time. Given such exceptionally favourable circumstances, Chinese industries in Shanghai grew rapidly and many new factories were set up during this period. Take cotton textiles -- the city’s then dominant industry -- for example. The first cotton mill equipped with modern machinery appeared in Shanghai in 1890. After a short period of growth in the beginning, Chinese cotton mills grew slowly until 1914 due to the competition from the foreign mill and shortage of raw cotton supply. As shown in Table 4.1, there were 7 factories with a total of 160,900 looms in Shanghai in 1914. The Great War was the turning point. During the years 1914-20, the number of Chinese cotton mills trebled from 7 to 21 while the number of looms doubled from 160,900 to 303,392.

Table 4.1 Growth of Chinese Cotton Mills in Shanghai 1914-27

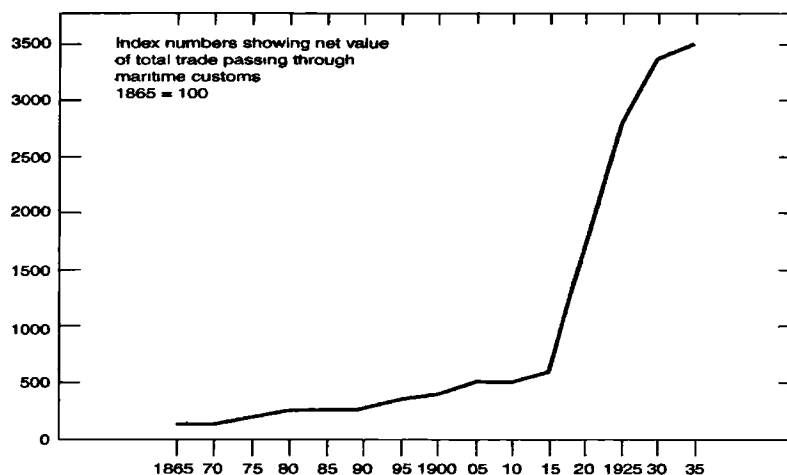
	Factories	Looms
1914	7	160,900
1919	11	216,236
1920	21	303,392
1921	23	508,746
1922	24	629,142
1923	24	675,918
1927	24	684,204

Source: after Bergere (1981: 9)

Although China had lost her one-time monopoly of the trade in silk and tea by about 1900, Shanghai’s primacy in China’s trade was secured by its favourable location for the newly diversified foreign trade of China. Furthermore, with the economic boom

of China during the war and its aftermath*, of which the industrialization of Shanghai was the most important component, the net value of total trade passing through Shanghai's maritime customs experienced a meteoric increase from 1915 to 1930, as shown in the following Graph 4.1.

Graph 4.1 Shanghai's Trade, 1865-1935



Source: after Murphey (1953: 118).

Table 4.2 The Rise of Traditional Chi'en-Chuang Banks at the Time of the First World War (Capital data in Chinese dollars)

	No. of banks	Total capital	Average capital per bank
1913	31	1,600,000	51,600
1920	71	7,700,000	109,000

Source: after Bergere (1981: 6)

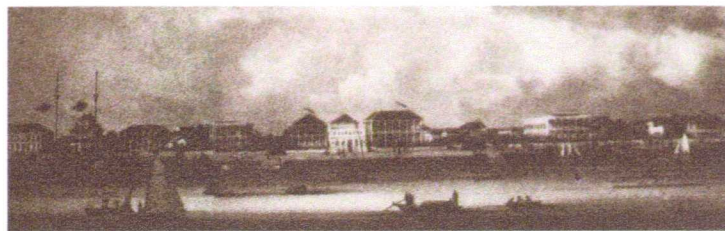
Accompanying the growth of commerce and industry was the development of credit and of modern Chinese banking. Foreign banks were among the first modern sectors that came into Shanghai after it opened up. The twenty or so foreign banks which operated in China including the Hong Kong and Shanghai Banking Co. Ltd. (see Table 4.3) were all represented in Shanghai, where they continued to monopolize the financing of external commerce and control the flows of precious metals and foreign currency (Bergere, 1981: 4). Chinese banks which were the principal financiers for national enterprises grew rapidly during the war. As indicated in Table 4.2, the

* The rate of China's industrial growth reached 13.8% per annum from 1914-25 (Bergere, 1981: 4).

number of Chinese "Ch'ien-Chuang" banks increased from 31 in 1913 to 71 in 1920 with their capital growing almost five times.

By the end of 1910s, Shanghai had established itself as Asia-Pacific's most powerful financial centre. Banks were concentrated on the Bund, colonial waterfront next to the Huangpu River. The development of the Bund reflected Shanghai's development.

Picture 4.1 The Bund Seen in 1853



Source: Wu (2002: 7)

Picture 4.2 The Bund in its Golden Time (circa 1930s)



Source: Wu (2002: cover photo)

Picture 4.1 and Picture 4.2 show the dramatic landscape change of the Bund. Taken in 1853, Picture 4.1 shows the Bund in its early stage. In only ten years after Shanghai was opened to foreign trade and residence in 1843, a colonial waterfront with a cluster of western style buildings had emerged along the Huangpu River. Picture 4.2 shows a completely different scene of the Bund – the Bund in its golden era in the 1930s. Along the Bund stands a wide variety of architectural styles including European Classic Style and Eclectic style (during the late 1890s to 1920s) and European Modernism (from the 1920s on), most of these magnificent buildings were built by the foreign banks (see Table 4.3).

Table 4.3 Major Buildings in the Bund (Zhongshan Road East D)

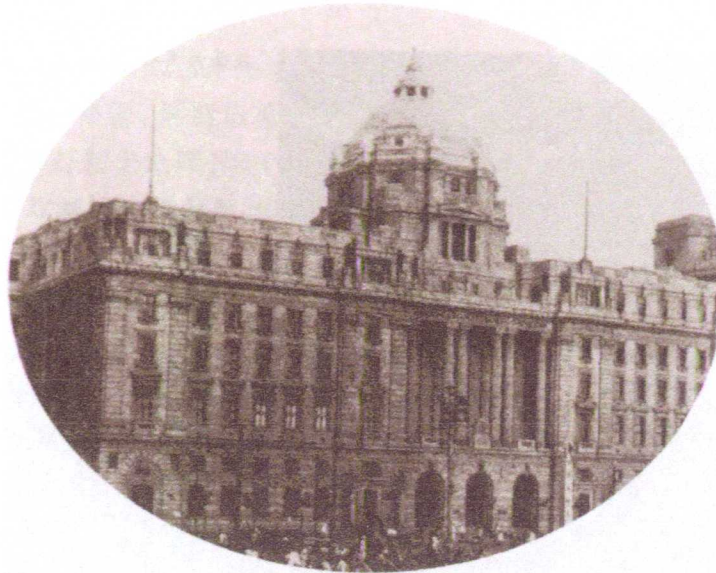
Address	Building/Company	Designer	Years of completion
No. 1	Asia Petroleum Company Building	Moorhead and Halse (UK)	1916
No. 4	Union Building (Union Assurance Co.)	Palmer and Turner (UK)	1916
No. 5	Nishin Building (Nishin Co.)	Lester, Johnson and Morris (UK)	1921
No. 7	Commercial Bank of China Building	Atkinson and Dallas (UK)	1906
No. 12	Hong Kong and Shanghai Banking Corporation Building	Palmer and Turner (UK)	1923
No. 15	St. Petersburg Russo-Asiatic Bank Building	H. Becker (Germany)	1901
No. 16	Bank of Taiwan Building	Palmer and Turner (UK)	1931
No. 17	North China Daily Building	Lester, Johnson and Morris (UK)	1924
No. 19	Sassoon House	Palmer and Turner (UK)	1929
No. 23	Bank of China Building	Palmer and Turner (UK)	1936
No. 24	Yokohama Specie Bank Building	Palmer and Turner (UK)	1924
No. 26	Yangtze Insurance Association Bldg.	Palmer and Turner (UK)	1920
No. 29	Banque de l'Inde-Chine Building	Atkinson and Dallas (UK)	1911

Source: Luo, 1996; Shanghai Real Estate Market '1999.

Table 4.3 shows that all of 13 major buildings in the Bund were designed by foreign architects, particularly the involvement of British architects (12 out of 13). In order to impose their own mark on the landscape, international capitalists spared no expense to show their wealth and power. For example, the British-controlled Victorian classical Hong Kong and Shanghai Banking Corporation Building (1923) (see Picture 4.3), designed by British architectural firm Palmer and Turner, was claimed as "the most magnificent building in the Far East" with "eight columns of Sienna Marble supporting the dome of Venetian mosaic", and a "300-foot long marble counter in the banking hall" (Pan, 1993: 62). The Bund, vividly reflecting what Zukin (1992) called as the construction of "a landscape of power", has since become the traditional landmark of Shanghai. Picture 4.4 shows the Bund in 1990s, where we can see that the landscape of the Bund has remained basically unchanged

from the 1930s. The fourth building to the left is the magnificent Hong Kong and Shanghai Banking Corporation Building, which had been used as the building for the Shanghai Municipal Government since 1949 until 1998 when it was taken over as the headquarter for Shanghai Pudong Development Bank.

Picture 4.3 Hong Kong and Shanghai Banking Corporation Building



Source: Wu (2002: 202)

Picture 4.4 The Bund in 1990s



Source: Courtesy of Yanghe Ou

Also associated with Shanghai's industrialization was the rapid growth of population. Until 1895 Shanghai remained almost exclusively a trading city, with a consequent population which never exceeded half a million (Murphey, 1953: 20). The rapid industrial development, and the creation of jobs which came with it, drew to Shanghai an influx of newcomers. It is estimated that the population of the city increased from one million inhabitants in 1910 to nearly two and a half millions in 1920 (Bergere, 1981: 4). Such a dramatic increase, unequalled in China, was also unusual in the world. People from virtually every corner of China, notably those from Jiangsu, Zhejiang, Fujian and Guangdong, came to Shanghai for jobs and formed their own communities there. Foreigners, mainly the British, French, German, Russian, American and Japanese, attracted by Shanghai's golden opportunity of making money, converged in this "paradise of venture" and set up their own diaspora culture (Wakeman and Yeh, 1992). Shanghai was then one of the most cosmopolitan and divided cities in the world.

From this economic boom, a new generation of businessmen – the national bourgeoisie class appeared in Shanghai. Many professional associations were founded by these young Chinese managers in this period, the Shanghai Banker's Association in 1917, and the Chinese Millowner's Association in 1918. Along with the rise of the conquering bourgeoisie was the development of a working proletariat. In 1921, Shanghai accounted for about a quarter of the one and a half million Chinese workers employed in modern factories and associated services (Bergere, 1981:11). These 300,000 to 400,000 workers became a socially and politically important force at the local and national levels from 1919 to 1927.

The decisive factor in the worker's movement in Shanghai was the intervention of the Chinese Communist Party (CCP) founded at a Congress in Shanghai in July 1921. The Shanghai General Union which brought together 117 unions and 218,000 members was under the control of the CCP. Provoked by the assassination of a Chinese worker in a Japanese cotton mill, it organised the demonstrations of 30 May 1925 in which the workers' strikes continued for three months in the Japanese and English factories of the International Settlement (Bergere, 1981). It even organised two attacks in November 1926 and February 1927, trying to launch a revolutionary strike. Fearing that the CCP would grow out of control, Chiang Kai-shek, then de

facto leader of the Nationalist Party, with the help of the bourgeoisie, perpetrated the coup of 12 April which brutally destroyed the Shanghai General Union. The coup also claimed the end of the robust movement of proletariat in Shanghai which had since never recovered until 1949.

Attracted by the relative safety and the freedom of expression provided in the international settlements, intellectuals started to gather in Shanghai which became the cultural centre of China, while Beijing, home of the intellectual renaissance of 1915-19, was gradually deserted by its writers and academics due to the chaotic and brutal regime of the warlords. In 1921, there were 26 foreign newspapers and magazines and over 80 Chinese publications in Shanghai. All the important literary movements such as Saturday School novels and the Creation Society and all the great names in the new Chinese literature were found there (Bergere, 1981).

One decade is a short time in a city's development. However, the decade of prosperity after 1914 in Shanghai was sufficient to transform a commercial port into an industrial city and to nurture a new Chinese society. It was an enterprising, cosmopolitan urban society. At the turn of the 20th century, Shanghai was known as the Paris of the East, where sojourners from all corners of the globe converged to created one of the most dynamic and sophisticated capitalist entrepôts the world had ever seen (Perry, 1993). It was "as crowded as Calcutta, as decadent as Berlin, as snooty as Paris, as jazzy as New York" (cited in Young, 1997).

Such a prosperous cosmopolitan city could not have come into existence without Shanghai's special political status and its non-governmentalism in the international settlement. The golden age of Shanghai was again a period of political turmoil and civil disorder for China. The xenophobia-induced Boxer Rebellion in 1900 swept through northern China. The republican revolution of 10 October 1911 led by the Nationalist Party (Kuomintang) finally toppled the Qing dynasty, which put an end to Imperial China. The revolution brought China into the warlord period with the north warlords occupying Beijing as their centre and the Nationalist Party in Canton.

While the country was in a state of social upheaval, Shanghai enjoyed relative security and order thanks to its international status. This special status remained

strong encountering no challenger from the Chinese side where political and ideological order were increasingly weakened in the wake of the breakdown of the Qing government. The refuge haven of the international settlement plus a growth machine style Municipal Council based on the laissez-faire ideology, thus secured Shanghai's golden age. Paradoxically, the international status which laid the foundation for Shanghai's economic miracle helped to create and strengthen the nationalism which threatened to destroy the very foundation on which Shanghai's prosperity was based.

4.4 Nationalist Shanghai (1927-1937)

With the success of the Northern Expedition, the Nationalist Party established the national government in Nanjing in 1927 and finally unified China in 1928. The political success of the Nationalist Party came from its adamant nationalism which has dominated China's history since the May Fourth Movement of 1919 and for which Chinese people from all walks of life supported after enduring decades of humiliation from western imperialism. From its establishment, the Nationalist government led by Chiang Kai-shek threw itself into a policy of national restoration of which one of its main objectives was to have the international settlements returned to Chinese sovereignty including the abandonment of extraterritoriality.

Following the increasing requests from Chinese government, the controversial problems of Shanghai's legal status were re-examined between 1927 and 1937, but it did not result in a revision of the Land Regulations (Murphey, 1953). However, the Chinese authorities did manage to regain some of the rights of which China had been deprived.

First, the Mixed Court, created in 1864 to settle differences between Chinese residents in the international settlement, which ceased being a Chinese court and became fully controlled by the foreigners in 1911, was abandoned and the Chinese judicial system reclaimed the right over its people in whole city. In May 1930 the Chinese municipality reaffirmed its control on the External Roads which were built

in 1925 surrounding the settlements and maintained and policed by the Municipal Council which also placed a tax on local residents (Murphey, 1953; Bergere, 1981).

Administratively, the national government established the Greater Shanghai Municipality in 1927 which brought together under its authority the different Chinese parts of Shanghai and its outskirts. The international settlements were now surrounded by one integrated Chinese administrative unit which was put under the direct control of the central government. What is more, the newly established Municipality waged a war of attrition against foreigners, raising incidents and difficulties, proposing a more and more restrictive interpretation of the treaties and sometimes ignoring them completely (Bergere, 1981: 15).

Economically, the Kuomintang regime was in principle a plan-rational state -- a system that was later brought to Taiwan by the Kuomintang (For definition of plan-rational state, see Chapter 2). Although its economic policy was basically in favour of the capitalist development, it proved to be much more hostile than had been admitted towards a laissez-faire economy and private enterprise, refusing to let the bourgeoisie participate in local administration and superseding them in most of their economic functions (Bergere, 1981).

The Chinese City Council established in 1905 was said to be the first representative Chinese municipal government which arose from the merchant-gentry tradition rather than from imperial decrees (White, 1981: 32). The council members were usually the local business elite faithful to the tradition of guilds and Charitable Halls. The newly established Municipality of Greater Shanghai whose mayor was named by the central government put an end to this tentative decentralisation of administration. The local elite were then completely excluded from this municipality of civil servants designated by the government and controlled by the local branches of the Kuomintang which adopted the Soviet system of organisation despite its strenuous anti-communism.

In March 1929, the Kuomintang managed to reorganise the General Chamber of Commerce which gathered together the most influential businessmen within the international settlement and which had often displayed political independence, and

put it under the direct control of the Kuomintang. The bourgeoisie then lost the ability to even express themselves in their own organizations. The “coup” of March 1935 which brought the Bank of China and the Communication Bank under direct control of the government put an end to the financial power and independence of the Chekiang banking group. Once the financial groups were under control, it was not difficult for government to turn to the commercial and industrial sphere. Gradually, the old business middle class was replaced by a class of officials/capitalists working privately or publicly with their own capital or funds from the state (Bergere, 1981).

The Kuomintang regime pursued a series of policies which returned to the Imperial tradition of bureaucratic capitalism (Bergere, 1981). Bureaucratic capitalism refers to a kind of capitalist system where capital was controlled by a group of bureaucrats in the government -- a phenomenon arising in the late Qing dynasty when a group of "pro-westernisation bureaucrats" controlled and directed national capital into modern industries. This system was adopted by the Nationalist government whereby national capital was controlled by the Nationalist Party.

The Kuomintang regime was more relentless towards the suppression of working class which became the object of constant supervision and repression. Under the flag of eliminating all communist influence, a series of measures were adopted in the draconian law governing unions of October 1929, which required prior approval from the government, notice and minutes of meetings, prohibition of regional federations, the appointment of administrative watchdogs over union of civil servants and so on (Bergere, 1981: 19). In the face of intensified repression, the proletariat ceased to be a coherent political force.

The Kuomintang regime even tried to control public opinion in the settlements where the critical spirit and frequent animosity of the press was irritating. Although it was not without success, this censorship was strongly resisted by the international authorities and the liberal intellectual organizations such as the League of Left-wing Writers founded in February 1930 still prospered in the international settlements.

In 1937, however, the reconquest of Shanghai by the national government was far from complete. The international status of Shanghai basically remained and the life

of the city continued to be largely governed by the evolution of the international economic situation. The Kuomintang regime, although anxious to control the bourgeoisie politically, relied heavily on Shanghai's economic power, and as a national government it did make efforts to encourage and promote China's modernisation. National banknotes were introduced, a central bank was established and government put in place a monetary policy to adjust and regulate interest rates. Meanwhile, the system of weights and measures was standardised, industrial registration was enforced, and collection of industrial statistics began. All these unprecedented measures helped greatly the formation of a national market and thus facilitated the development of national capitalism. The regaining of tariff autonomy in 1929 particularly enabled the national government to adjust tariff rates to produce a favourable position for national capitals in the competition with imports (Lieu, 1936).

Therefore, although the economic growth of Shanghai under the Kuomintang regime was less rapid than it had been in the preceding decade, it still managed to achieve remarkable progress. In 1934 the city had three and a half million inhabitants, its factories provided half of China's modern industrial production and its port, with traffic of 35.4 million tons, ranked among the largest in the world (Bergere, 1981: 21). National capital continued to flourish. In Shanghai, the number of spindles in the Chinese cotton mills increased from 684,204 in 1927 to 1,005,328 in 1931. This equipment represented 41 per cent of the production capacity of China's cotton mills (ibid.). For transnational capitalism, Shanghai was still the most important beachhead to the whole Chinese market, and about half of the foreign direct investment in China was concentrated in Shanghai at that time.

4.5 The end of international status (1937-1949)

The end of Shanghai's international status started when the all-out Sino-Japanese war broke out in July 1937. After three months' bitter battle, Japanese troops captured Chinese Shanghai and its outskirts in November. The administration of the Greater Shanghai Municipality was then given to the puppet government of Datao. However,

right up to the attack on Pearl Harbor (December 1941) the status of the international settlements was conserved, although its territory was drastically cut down.

The war cut Shanghai off from its domestic and foreign markets. The great international port became “a lonely island”. Activity in the port of Shanghai declined dramatically and the value of foreign trade handled by the port dropped by 55 per cent between 1937 and 1938. The military operations of 1937 also destroyed 5,255 workshops and factories. Estimates of the damage varied from 350 million to 4,500 million Chinese dollars. In addition, after July 1937, 152 factories were transferred to Free China – China controlled by the Nationalist government (Bergere, 1981: 24).

Once again, the international settlements became a refuge from the war. Hundreds of thousands of Chinese refugees fled into the Settlements and Chinese businessmen also moved in to avoid control by the Japanese troops. With the abundance of both manpower and money, industrial activity in the settlements managed a short period of revival. However, as a city whose prosperity depended on the Settlements, Maritime Customs and the doctrine of the Open Door, Shanghai’s development was about to be destroyed.

On 8 December 1941, the day after the attack on Pearl Harbor, the International Settlement was overwhelmed by the Japanese troops. The French Concession was spared for Japan preferred to exert diplomatic pressure on the Vichy government. At first the Japanese did not destroy the international administration, for they did not want to relinquish their own rights at Shanghai. However, when Allied efforts in the Solomon Islands and North Africa were showing success, the Japanese officially turned all of Shanghai over to Wang Jingwei’s administration – its puppet Chinese government on 9 January 1943 in order to mobilize more Chinese support in this adversity (Bergere, 1981). Almost the same time, America and Britain signed a treaty with the Nationalist government, abrogating all extraterritorial rights. France and fourteen other nations that also had extraterritorial treaties with China followed suit. Shanghai’s international status finally ended.

After Japan’s surrender in August 1945, United States Air Force planes flew Nationalist troops to occupy the city which for the first time was putatively unified

under a Chinese administration. However, the city's fate was doomed. While the country was still in ruins after eight years of Anti-Japanese War, the civil war between the Nationalist Party and the Communist Party who were the alliance against Japan broke out. For Shanghai, the years of civil war were years of wild inflation. The government, incapable of financing its growing military expenses, found no way to tackle the deficit except by issuing of notes: 40 billion Chinese dollars a day in 1947. In Shanghai, where capital from the Chinese interior found an outlet and where the government spent a third of its money, prices increased by 33.7% a month during the 1945-8 period (Bergere, 1981: 27).

With the Communist army sweeping over north China, Shanghai was increasingly losing its raw materials and markets. At the beginning of 1948 only 20 per cent of the 3,000 mills were working to full capacity (Bergere, 1981: 28). Shanghai's economic activity was only maintained thanks to help from abroad. In 1946-7 deliveries carried out in the name of UNRRA (United Nation Relief and Rehabilitation Administration) reached around 500 million American dollars. These relief goods together with the influx of refugees and their capital brought about feverish activity. This false prosperity did not last long when the Communist army approached and finally took the city on the morning of May 25, 1949.

4.6 Shanghai: key to modern China

In his classic book "Shanghai: Key to Modern China", Rhoads Murphey (1953) started by saying: "This is the study of an anomaly". It is an anomaly for two reasons (Murphey, 1953). First, modern Shanghai was not born out of the natural evolution of capitalism in China as were its western counterparts in 17th and 18th century, but was in effect superimposed on a peasant civilisation. As Murphey (1953: 1) points out that Shanghai was:

A city of four million people grew up in the short space of a hundred years out of the traditional agrarian economy of China, before the building of a modern railway network, before the development of a single national market, and before other Chinese commercial cities of metropolitan size had appeared.

Even by 1941, it was still possible to walk from the centre of the Bund to unchanged agricultural countryside in three or four hours. Second, the concentration of the administrative functions contributed decisively to the rise of other great cities (Rome, London, Beijing). It was particularly the case with China where the extraordinarily developed imperial administrative system was always at the core of economic and social activities over two thousand years of feudal history. Shanghai, however, has never performed any administrative functions beyond its own metropolitan limits.

Shanghai's rise was in the main attributed to two factors: the favourable geographical location and its international status. Location has been the predominant factor in the growth of the city at every period, and distinguished Shanghai from other treaty ports which, with the same economic opportunity derived from their political status, were rapidly outdistanced by Shanghai. Shanghai's advantageous location lies in two aspects. First, Shanghai stands at the apex of the most fertile and populous area of comparable size anywhere in the world, the lower Yangtze basin. The Yangtze watershed totals 750 millions square miles, or half of China proper, and had a population of approximately 200 millions when the Nanjing Treaty was signed. The Yangtze delta, bounded by Zhenjiang, Hangzhou and Shanghai, an area of about 20 million square miles, had an estimated population of 40 millions. With nearly 80 per cent of the total land area being cultivated, it was one of the most widely cultivated areas in China. The delta was also one of the most important areas in producing tea and silk, then China's two dominant staple exports. Nodes of commerce were thickly scattered over the fertile triangle, which contained three cities of over half a million population (Hangzhou, Suzhou and Shanghai).

Apart from the great extent of its hinterland, Shanghai possesses another decisive locational factor whereby it outpaced other big cities in the delta, namely, its unrivalled position on China's network of water transportation. Shanghai is located at the mouth of the Yangtze River and at the central point on the coast of East Asia (see Figure 4.1 and Figure 4.2). On the Yangtze there was an all-year ship channel for 5,000-ton ships as far as Hankow, 600 miles from Shanghai and a summer channel to Hankow for 10,000-ton ships. Above Hankow, a permanent steamship service was maintained as far as Chungking, 1400 miles from the sea, by vessels of

up to 2,000-ton. The total of inland waterways navigable from Shanghai by junks at all seasons was nearly 30,000 miles, reaching approximately 200 million people.

Shanghai's orientation to the sea is almost equally favourable. Midway on the China coast, it lies less than a hundred miles east of the great circle route followed by shipping between west coast North America, and Japan, China and Southeast Asia. All of the major commerce lanes of the western Pacific met there. In the pre-industrial economy of China, water transport was by far the most important volume carrier. Some Chinese cities such as Hangkou have quite good inland waterways, others such as Hong Kong and Canton have a good sea routes. But none of them holds both as Shanghai does. Even for the major cities with similar location in Southeast Asia, "Shanghai is nearly twice as large as any of them because the trade of half, and that half the richer one, of the most populous political unit in the world is funnelled through the city by the pattern of inland waterways and sea routes which focuses on it" (Murphey, 1953: 3). This transport pattern is reflected in the fact that Shanghai between 1865 and 1936 handled between 45 and 65 per cent of the total foreign trade of China by value (ibid.: 48).

However, the advantageous geographical location alone would not have given rise to a modern cosmopolitan Shanghai. It was its independent political status imposed by the western powers that made this favourable status meaningful in the rapid capitalisation and industrialisation of Shanghai. The political status of the International Shanghai created by the Nanjing Treaty was ambiguous in legal terms. Under the treaty China conceded no Shanghai territory to Britain. British concern was not about territory either, its main concern was about the right to trade, and consequently the right of residence for foreigners in the treaty ports. Furthermore, the basic law of the foreign settlements – Land Regulations was negotiated and signed by the British consul and the local circuit intendant (*daotai*) rather than the two national governments.

However, the Nanjing Treaty gave British, and later citizens of all powers having most-favoured-nation agreements with China, the right of extraterritoriality which placed them under the jurisdiction of their own national laws wherever they went within China. In the international settlements, therefore, the Chinese authorities lost

all legal, and with the establishment of Municipal Council, fiscal jurisdiction. The extraterritoriality was of course a humiliation for Chinese government who lost at least part of the sovereignty over the international settlements. Nevertheless, it gave foreigners and the Chinese residents in the international settlements security of person and property. Such a security was absolutely crucial for modern Shanghai's formation and prosperity given the fact that China was mainly in disorder and chaos for over a hundred years after the sign of Nanjing Treaty. Despite all the rebellions and wars, the foreign settlements were never invaded by a hostile force, nor occupied by Chinese troops until Japan's assault on China engulfed the entire city after Pearl Harbour in 1941.

By the early 20th century Shanghai was one of the largest cities in the world as well as the financial and trade centre of the Far East. The Shanghai model has reached its peak. It is an unusual model in the history of world city development. Imposed by the western powers, it is a model in which the city was not only economically integrated with the world capitalist system while its home country was far away from the single national market, but also politically controlled by westerners. The foundation of this model was Shanghai's international status which was politically independent from Chinese authorities. When this special status was endangered under attacks from rising Chinese nationalism, the model started to decline and finally came to end.

One interesting observation that we can take from Shanghai's rise and fall is the changing role of the state in Shanghai's urban development. The rise of modern Shanghai was not organised or planned by the Chinese government, rather, it occurred exactly at the time when the national government (Qing dynasty) declined and lost its control over the city. Neither was it planned by any western power. The power vacuum was filled in by a corporate and business-oriented city government the Municipal Council of Shanghai. Its decision-making was collegial in nature and it never had a chief executive. Its political structure was not just international, for the sake of peace and commerce, it was carefully kept non-national. It was this non-governmentalist city-state that gave Shanghai "fifty years of maximum modernisation with minimum administration" since its power was amplified in 1866 (White, 1981). Ironically, when the Nationalist Party established the national government and tried to regain control over the city, the growth of Shanghai slowed

down; and when the Communist Party took power and Shanghai was tightly controlled by the central government, it completely lost its vitality and cosmopolitanism which were so strong in its golden age, and which were vital for Shanghai's development.

The strength of the Shanghai model lies in the fact that when the whole country was still controlled by a backward political-economic system, the western powers could implant from outside a modern capitalist system which might otherwise never be naturally born from within. This externally-induced model, however, contained at its outset a fatal seed which would grow up and finally destroy the model itself, that is, nationalism. Chinese nationalism, as much as China's economic revolution, put down its first modern roots beside the Huangpu. In the city China for the first time learned and absorbed the lessons of extraterritoriality, gun-boat diplomacy, foreign concession, and the aggressive spirit of nineteenth century Europe. For the Chinese, foreign Shanghai was an excrescence on the Chinese body politic; it was the outstanding symbol of the economic exploitation of China by western imperialism; and it was the principal reminder of China's unequal treaty status with the western powers. This reaction against Shanghai and against what it stood for was one of the few points on which Nationalists and Communists have consistently agreed. Generalissimo Chiang Kai-shek, then Chairman of the Nationalist Party, had this to say about the treaty-ports in 1943:

Year after year our country's life was increasingly concentrated in these areas... Within the concessions the only ones that prospered were the compradores... and no productive enterprises developed in these ports because they could not absorb people from the agricultural villages... This abnormal development of the national economy could not be adapted to the defense needs of the state... the imperialists could have strangled the country's economic life... The state could not protect itself and the people could barely exist... (Chiang Kai-shek, 1947: 85-87, cited in Murphey, 1953: 27).

The Communist condemnation was even more specific:

Shanghai is the concentrated, typical expression of the colonial or semi-colonial nature of old China's economy. Its so-called prosperity in the past was not founded on an independent, sound economic basis, but on bureaucratic capitalism and on imperialism and its compradores... Such

colonial or semi-colonial economic status must be discarded before Shanghai can become a truly prosperous new peoples' city... (China Digest, August 10, 1949: 10, cited in Murphey, 1953: 27).

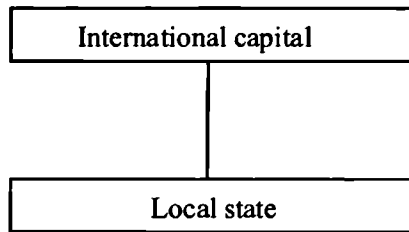
The Shanghai model was discarded when the Communist army entered the city in May 1949. The treaty port system* of which Shanghai was the kingpin failed to work as the nuclei of the institutional ferment that would eventually engulf and transform China, as did they in South and Southern Asia. In its semicolonial days, Shanghai was described as "in but not of China" (Murphey, 1988). Therefore, this enclave economy cut off from China was seemingly easily got rid of by the Communist Party in 1949. However, what the Shanghai model stands for was far more than a commercial or industrial phenomenon. The flow of ideas and of noneconomic institutions was perhaps of greater revolutionary importance in the long run. This undercurrent constrained by the authoritarian communist regime did not come to surface until 1979 when the Shanghai model started to partly reemerge, but this time in the name of globalisation from outside and of the reform and open-door policy from inside.

4.7 Key relationships of the state and capital in pre-1949 Shanghai

This chapter has examined Shanghai's urban development prior to 1949, focusing on two underlying forces -- the state and capital. From the above analysis, we can identify the key relationships between the state and capital in four historical periods.

The first period was termed "the formation of modern Shanghai", starting in 1842 -- the year when Shanghai was forced to open to western trade and residents -- and ending in 1895 when foreigners were granted the right to set up their factories in Shanghai. In this period, if we were to summarise diagrammatically the key actors in determining Shanghai's urban development, we would find that one level of the state -- the local state (mainly the SMC) and one level of capital -- international capital were especially critical from 1842 to 1895:

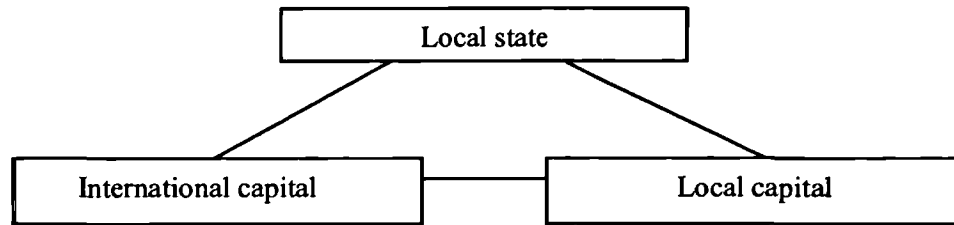
* There was a total of about a hundred treaty port cities by the time of the First World War, including nearly all of China's largest cities except Beijing. See Murphey, 1988.



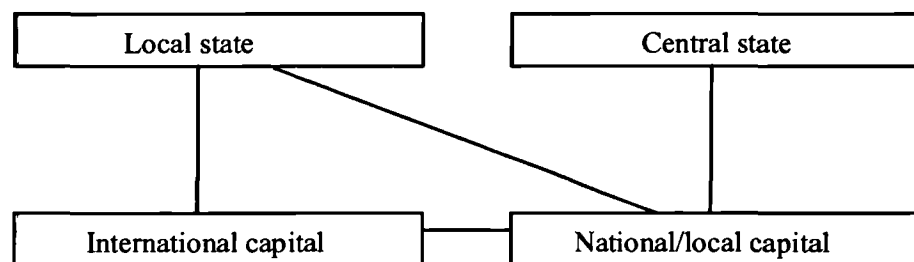
Due to the extraterritoriality, the Chinese central government (the Qing dynasty) was kept at arm's length from the international settlements. The main local authority -- the Shanghai Municipal Council of the International Settlement was a typical local growth coalition, mainly constituting the western elite who had strong local business interests. Shanghai was opened due to the conflict over the trade and business between China and western powers, and its early development was overwhelmingly dominated by the business agenda. The formation of modern Shanghai was mainly determined by international capital whereas the role of the state was subdued.

This capital-dominated power relationship between the state and capital continued to develop in the second period -- "the golden age of Shanghai" (1895-1927). Following the topple of the Qing dynasty, China entered the warlord period in which the country was in fact broken down into different warlord-controlled regions, and the Chinese state was at its weakest. By contrast, Chinese local capital emerged as an important player in Shanghai's urban restructuring after over fifty years of international capitalist-led development. The upsurge of local capital came in the First World War and its aftermath when the presence of the old Imperial powers in Shanghai began to decline. The establishment of local professional associations, the Shanghai Bankers' Association in 1917 and the Chinese Millowners' Association in 1918, reflected this tendency.

Therefore, the capital dominated state-capital relationship remained strong in the golden age of Shanghai. If there was any difference, as shown in the following diagram, we see the emergence of a new member in the capital side -- the Chinese local capital.

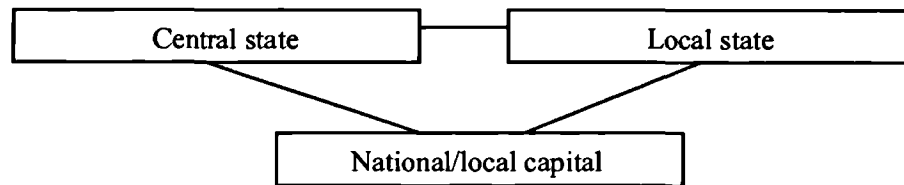


The capital dominated state-capital relationship started to change in the third period of Shanghai's urban development -- Nationalist Shanghai (1927-1937). In this period, although the international status of Shanghai continued, the Kuomintang regime started to tighten its economic control of international settlements by using state capital. As a result, Shanghai, for the first time since 1842, was affected by another key actor – the central state which appeared in state-capital relations by bringing in bureaucratic capital. However, as indicated in the following diagram, the penetration of the central state was indirect given the fact that the international settlements were still politically controlled by the westerners. Shanghai's remaining international status meant that although the state-capital relationship started to tilt toward the state side, Shanghai's urban development was still basically determined by the capitalistic logic.



The capital dominated state-capital relationship was finally transformed in the fourth period (1937-1949) when Shanghai's international status came to end. The Japanese occupation and later the renouncement of treaty rights by western powers put an end to Shanghai's century-long international settlements and together with it the Shanghai Municipal Council. International capital fled the war-plagued country, and its impacts on Shanghai's urban development faded away. Therefore, in this period

(the period of 1945-1949), the key state-capital relationship that determined Shanghai's urbanisation processes can be depicted as follows:



The Chinese central state finally got control of Shanghai. However, this was a government that was going to lose its control to the Communist Party even before it could establish a stable state-capital relationship. The victory of the Communist Party in the civil war in 1949 is a watershed in the history of Shanghai's urban development. As examined in this chapter, before 1949, Shanghai's changing urban pattern was dominated by the capitalistic logic, despite the increasing challenge from the Chinese state. This capital-dominated relationship of the state and capital was fundamentally changed by the communist revolution, which brought about a socialist Shanghai. It is this socialist Shanghai that I turn to in the next chapter.

Chapter 5

POLITICAL ECONOMY AND URBAN STRUCTURE IN PRE-REFORM SHANGHAI

5.1 Introduction

Chapter 5 examines Shanghai's urban structure under the political economy of state socialism (1949-1978). The introduction of state socialism eliminated private capital, and Shanghai's urban development was determined exclusively by the state, particularly the central state. State policies, particularly the overriding policy of industrialisation with minimum urbanisation, transformed Shanghai from a capitalist city of consumption into a socialist city of production. This revolutionary change is then analysed from aspects of economic base, spatial morphology and social structure. The chapter is finished by a brief summary of the underpinning state-capital relationship in Socialist Shanghai.

5.2 Shanghai under state socialism

The victory of the Communist Party over the Nationalist Party in the civil war brought about a completely new political economy -- that of state socialism. This political economy revolutionised the relationship between the state and capital, on which Shanghai's urban structure was based. Like the Nationalists, the Communists put Shanghai under the direct control of central government, both politically and administratively. Unlike the Nationalist government which adopted a market-based economic system, the Communist government adopted a Soviet-style centrally planned economy in which economic decisions were made by central government and sent down through ministerial channels to the state work unit. Under the centrally planned system, all territorial localities lost their position as independent economic units, because local government's major responsibility was to ensure SOEs

located in their territories to fulfil the plans set by the central government rather than to develop the local economy.

State socialism entailed the nationalisation of the private sector. Most of the city's capitalists had fled to Taiwan, Hong Kong, Macao and other part of south east Asia before the communist army entered Shanghai in May 1949. In order to help the economy recover from the war, the government was initially more tolerant than expected to the remaining private sector. This is reflected by the fact that in 1953 the private sector still accounted for more than 63% of Shanghai's output (Howe, 1981). However, under state socialism, private capital was doomed to be reformed, controlled and restricted and finally nationalised. With the progress of socialisation, the Shanghai Stock Exchange was closed, market-based prices were replaced by prices set by the state, private enterprises were forced into joint state-private ownership, and the nationalisation of the private sector was finally completed in 1956.

Table 5.1 shows the dramatic change of ownership structure of Shanghai's industrial enterprises from 1952-1978. In 1952, three years after the communist party came to power, there were 288 state-owned enterprises (SOEs) and 37 collective-owned enterprises (COEs), and 25,613 other enterprises. After a wave of socialist transformation started in 1952, by the year of 1962 there were no other enterprises at all in Shanghai's industrial ownership structure. Indeed, any form of private ownership of industrial enterprises virtually disappeared in Shanghai for more than two decades.

Table 5.1 Number of Industrial Enterprises by Ownership Sector in Shanghai, 1952-1978^a

Year	SOEs		COEs		Others ^b		Total
	Number	% of total	Number	% of total	Number	% of total	
1952	228	1	37	0	25613	99	25878
1962	3529	40	5280	60	0	0	8809
1970	3253	33	6581	67	0	0	9834
1978	3372	42	4590	58	0	0	7962

Notes: ^a Includes all enterprises operating at the village level and above. Excluded are those operating below village level and those operated by individual households.

^b Others include private and state-private joint enterprises.
Source: Mok (1996: 206)

Another fundamental change to Shanghai's urban development came from its relationship to the west. Immediate after Shanghai's fall to the communist army, the Nationalist blockade and the United Nation Embargo on China, effectively closed the sea routes through which Shanghai's economy had been closely linked with the west. The rise of two camps in the post-war international politics led China's foreign trade further towards the Comecon (Council for Mutual Economic Assistance) bloc, particularly the Soviet Union. The breaking of China's tie with the Soviet Union in the 1960s did not increase China's trade with the west but further strengthened its self-reliance policy (Tian, 1996). This closure of Shanghai's relation to the west that had been vital to its economic life remained basically unchanged until China opened up its door to the outside in the late 1970s.

The abolition of private capital and the isolation of China from world capitalism meant that private capital no longer existed as an independent force affecting urban development in China. An equation without capital meant that state policy became the only decisive factor defining Shanghai's fate. Due to the highly centralised political regime, the local state was no more than a subordinate extension of the central state and as such played a very limited role in its own urban development. Therefore, in order to understand urban structure in pre-reform Shanghai, it is imperative to focus on the policies of the central state.

China's urban development in the pre-reform era has been well-known for its "under-urbanisation" while most of the third world countries experienced the explosive city growth in 1960s and 1970s that came with the rapid industrialisation, China was said to have industrialised without becoming urbanised (Tang, 1993). Some attributed this under-urbanisation to political reasons such as class struggle and Mao's anti-urbanisation (Gurley, 1973; Ma, 1976). Recently, more scholars tend to see it from an economic point of view, arguing that China's under-urbanisation can only be accounted for by its particular industrialisation policy (eg. Kirkby, 1985; Mingione, 1987; Chan, 1992).

After taking power in 1949, the Communist regime, as in other socialist countries, adopted industrialisation strategies modelled upon that implemented in the USSR under Stalin. This traditional Soviet or Stalinist growth strategy is characterised by:

(a) sustained high rates of domestic saving, which are used to achieve high accumulation rates and high rates of output growth; (b) unbalanced growth based on industry, especially heavy industry, often leading to the neglect of other aspects of the economy; and (c) discriminatory policies against agriculture: massive “tribute” from the agriculture sector is designed to finance rapid industrial growth through collectivisation and setting of commodity prices. (Fallenbuchl, 1970, cited in Chan, 1992: 278-279.).

This strategy was designed to achieve industrialisation as soon as possible so as to demonstrate the superiority of socialism to capitalism. However, it contained a potential problem that would thwart this high ambition, i.e., urbanisation. The massive investment in industry and discriminatory policies against agriculture created immense incentives for peasants to migrate from rural areas to cities with a consequence of high rate of urbanisation. However, urbanisation in this context is deemed “costly”, because not only does it increase aggregate consumption by raising the migrants’ consumption levels, but also the urban population requires a much higher per capita investment in infrastructure. These high consumption costs are of course at variance with the socialist objective of high accumulation necessary for rapid industrial growth (Chan, 1992). To prevent this undesired urbanisation, socialist countries usually impose many constraints to regulate rural-urban labour mobility. As a result, socialist economies generally have lower urbanisation levels than those of comparable market economies based on similar per capita GNP.

Socialist China was no exception in this regard. If there is any difference, China under Mao took the policies of maximising industrialisation and at the same time minimising urbanisation to extremes. China adopted a draconian household registration system (*Hukou*) to control population mobility, which effectively confined the people to where they were born. Other measures to “economise” on urbanisation included fuller utilisation of the existing urban working-age population, suppression of the expansion of urban service employment and personal consumption in general, promotion of rural industrialisation and increase use of urban “temporary” workers (Chan, 1992). Meanwhile, the Chinese government gave

an overriding commitment to achieving high levels of output growth by devoting a large share of the country's "national income" (net material product, NMP) to investment at the expense of current consumption and standards of living. As shown in Table 5.2, except for 1961-2, the period immediately after the disastrous Great Leap Forward, China maintained high rates of accumulation throughout the period from 1953-85. For most of these years, accumulation rates were above 25% which was higher than other socialist countries, reaching a peak of 39.3% in 1958-60.

Table 5.2 China's State Investment Patterns and Output Growth, 1952-85

	1953- 57	1958- 60	1961- 2	1963- 5	1966- 70	1971- 5	1976- 80	1981- 5
Shares of Net Material Product based on current price (%)								
Consumption	75.8	60.7	85.0	77.3	73.7	67.0	66.8	69.2
Accumulation	24.2	39.3	15.0	22.7	26.3	33.0	33.2	30.8
Sectoral shares of state capital investment (%)								
Heavy industry	36.1	54.0		45.9	51.1	49.6	45.9	38.5
Light industry	6.4	6.4		3.9	4.4	5.8	6.7	6.9
Agriculture	7.1	11.3		17.7	18.7	9.8	10.5	5.1
Transport and communication	15.3	13.5		12.7	15.4	18.0	12.9	13.3
Commerce and services	3.6	2.0		2.5	2.1	2.9	3.4	5.9
Housing	9.1	4.1		6.9	4.0	5.7	11.8	21.3

Source: Chan (1992: 283)

Table 5.2 also shows that the allocation of state investment in China was characteristically skewed in favour of heavy industry. In most of the years before 1980 about half of the state capital investments were devoted to heavy industry, while the share of light industry never rose above 7 per cent. Although 80% of Chinese population were peasants, for most of the time the share of agriculture in state investment fluctuated around 10%. Investment in tertiary industries was similarly suppressed. Investment in housing, seen as a typical non-productive sector, accounted for between 4 and 11.8% of total investment before 1980, but jumped to 21.3% in 1981-5 due to the introduction of the reform policy in the late 1970s (see Table 5.2).

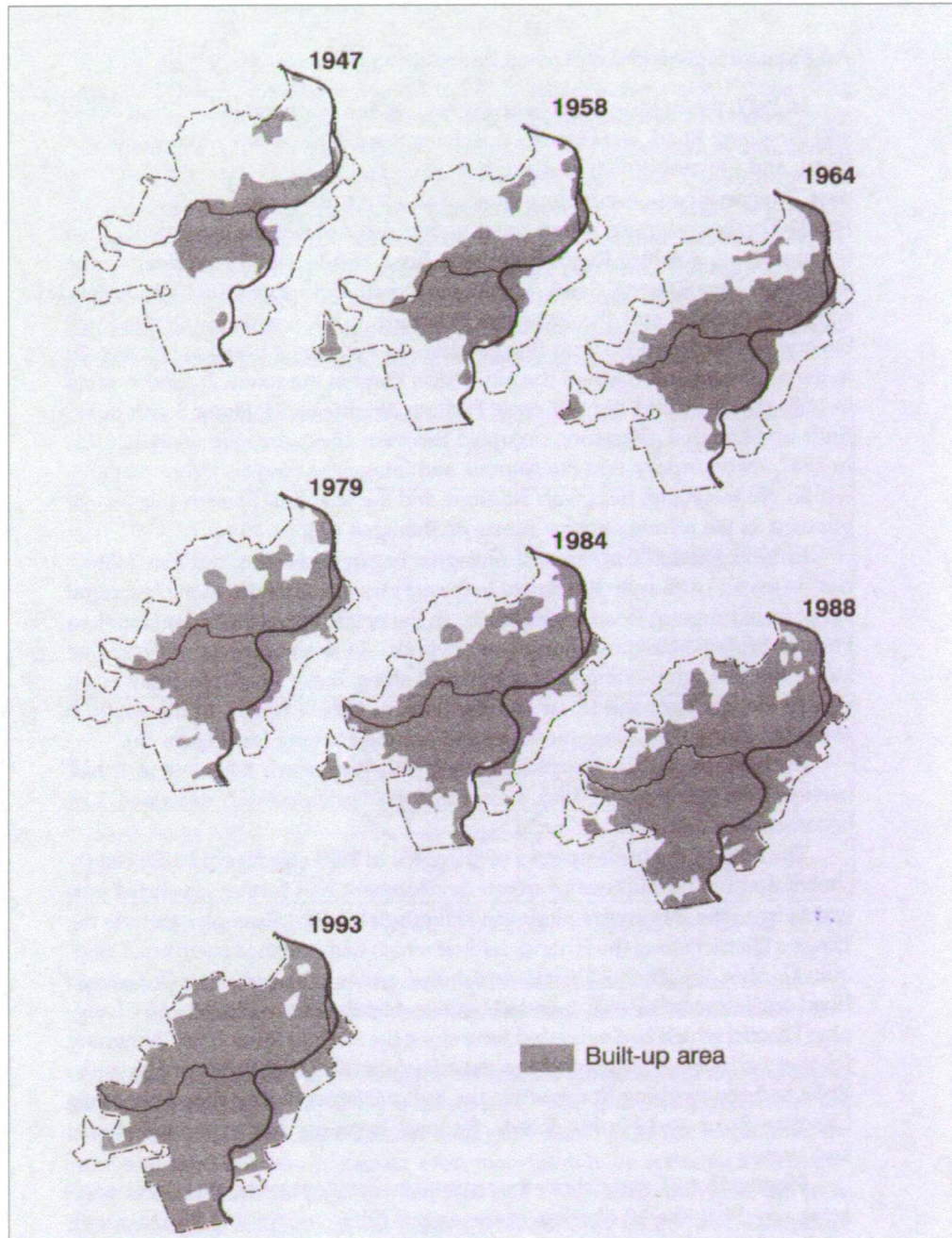
This industrialisation strategy and capital investment policy it entailed had decisive implications for China's urbanisation dynamics and policies. Indeed, some believe that it was the industrialisation imperative that shaped China's urbanisation (eg

Kirkby, 1985). Needless to say, Shanghai's urban development should be understood in this national context. As a model city of China's socialism, Shanghai's spatial growth in socialist era was very illustrative of the spatial consequence of China's under-urbanisation strategy. By analysing aerial photographs of the city proper, taken in years 1947, 1958, 1964, 1979, 1984, 1988 and 1993, Mei et al (1998) conducted a comparative research on Shanghai's spatial expansion in different eras. Figure 5.1 is a simplified version of spatial expansion of Shanghai's built-up area during the period 1947-1993. According to Mei et al, the built-up area of Shanghai's city proper was 91.5 square kilometres. By 1993, this had increased to 241.2 square kilometres. This means that the intensely urbanised area of Shanghai in 1993 was 2.63 times larger than that of 1947. The built-up area of Shanghai, therefore, had increased at an average rate of 3.2 square kilometres per year.

By comparing the average growth rate of the built-up area in different periods, the research shows that Shanghai's spatial expansion was greatly affected by China's urbanisation strategy. In early period of China's socialist development, Shanghai's built-up area expanded rapidly. Between 1947 and 1958, the built-up area grew by 3.25 square kilometres per year, and between 1958 and 1964 by 3.75 square kilometres annually. In contrast, during the period 1964 to 1979, when China rigidly adopted the policy of industrialisation priority at the cost of urbanisation, the growth rate of built-up area decreased significantly to only 1.31 square kilometres per year. Since the Chinese government adopted market-oriented policies in 1979, the growth rate of Shanghai's built-up area began to increase. Between 1979 – 1984, 1984 – 1988, and 1988 – 1993, the average annual rates of increase were 3.78 square kilometres, 6.83 square kilometres, and 5.1 square kilometres respectively.

The impact of China's policies of maximising industrialisation and minimising urbanisation on Shanghai's spatial development is further illustrated by the extremely slow growth of Shanghai's residential land use area. Between 1964 and 1979, the growth of Shanghai's residential area was almost zero. In fact, between 1958 and 1979, Shanghai's residential land use areas increased by only 3.02 square kilometres, a rate of only 0.14 square kilometres per year.

Figure 5.1 Urban Growth of Shanghai during the Period 1947-1994



Source: Mei et al (1998: 134)

As discussed below, socialist state policy had revolutionary impacts on Shanghai's urban development, transforming it from a capital-driven capitalist "consumption" metropolis (*xiaofeixing chengshi*) into a state-defined socialist "productive" city

(*shengchanxing chengshi*). This revolutionary change is analysed from the three perspectives of economic base, spatial morphology and social structure.

5.3 Economic base

As illustrated in the previous chapter, Shanghai was China's biggest multi-functional metropolitan city before 1949 functioning as the financial and trade centre of China. State socialism changed it all. Private financial institutions were not allowed. State-owned banks were run not so much as commercial companies as extensions of governmental departments, and as such, all the state-owned banks were headquartered in Beijing, the capital of People's Republic. Similar to the administrative units, these banks set up a vertically-controlled hierarchy of branches across the country.

China's foreign trade was also monopolised by the government. Nine national Foreign Trade Companies (FTCs) organised along product lines directly controlled 107 local branches with their headquarters in Beijing. The national FTCs directly negotiated business with foreign customers for "category I" exports, mainly bulk products such as petroleum and agricultural products. The FTCs branches, mostly located in five coastal cities including Shanghai, had the exclusive right to negotiate exports of Category II and III and fulfil the export orders under category I (For the categorisation of imports and exports and their management, see Tian, 1996). In contrast to exports, imports were more tightly controlled at the central level. While national FTCs controlled about 20% of exports, about 80% of China's total imports were directly negotiated by them and fulfilled by their branches (Tian, 1996).

Due to its isolation from the west to which China's economy and particularly Shanghai's economy had been linked prior to 1949, China's foreign trade remained at a very low level after 1949. In 1950, China's total exports reached US\$ 552 million, while Shanghai's total exports had reached US\$ 993 million as early as 1920. In 1970, 20 years after the communist party came to power, Shanghai's exports rose slowly to US\$ 867 million, still below the value that it achieved 50 years before (Tian, 1996).

Although Shanghai's foreign trade shrank dramatically in absolute term, it was still China's most important trade centre accounting for about 30% of China's total imports and exports throughout the period 1949-78. However, the situation is quite different from the one prior to 1949 when Shanghai was China's dominant trade centre. While the previous position stemmed from market forces, this time it was administratively induced. Shanghai, due to its favourable location and its historical position, was chosen by the Chinese government to be China's major trade centre. In other words, the Shanghai branches of FTCs were given more orders to export and more import quotas by their head office in Beijing. Although Shanghai's position as China's trade centre was maintained in this way, its relation to the world market as well as its hinterland through foreign trade had been changed under this vertically controlled system. Companies were indifferent to changes in the world market because they could get orders and quotations from their national FTCs regardless. Horizontal economic relations between Shanghai and its hinterland that developed naturally in the market economy in accordance with the factor endowment were replaced by a vertical command system. As a result, Shanghai's entrepot function whereby the Yangzi Delta was integrated with the world market largely disappeared.

Shanghai's domestic entrepot function also disappeared. In a centrally planned economy, production factors such as labour, land, capital and other materials, which used to be allocated by market forces, were administratively allocated by the various governmental departments. Due to this strong government intervention, many tertiary sectors associated with the flow of materials were depressed and some of them simply disappeared. Under the public-ownership-based, centrally planned system Shanghai's position as China's financial centre was lost and its trade function was highly restricted, while its industrial function encouraged by China's industrialisation strategy expanded quickly.

The restriction of tertiary industry and the further growth of industry rendered Shanghai's sectoral structure increasingly dominated by manufacturing industry. From 1952 to 1978, industry's annual growth rate in terms of GDP reached 10.7%, while tertiary sectors' was only 4.6%. As a result, the share of tertiary industry in Shanghai's GDP shrank from 41.7% in 1952 to 18.6% in 1978, while industry's

share increased from 52.4% to 77.4% (Tian, 1996). Shanghai had been transformed from a “multi-functional city” to a “uni-functional city”, from a capitalist “consumption city” to a socialist “productive city”.

Alongside this sectoral restructuring, a dramatic change occurred within the structure of Shanghai’s industry. Before 1949, Shanghai’s industry was dominated by light industry, particularly textiles. In 1949, the textile sector accounted for 62.4% of total industrial output and heavy industry just 13.6% (Table 5.3). By the end of First Five Year Plan (1953-7), the heavy sector had nearly tripled its share to 36.5% while that of textiles had nearly halved. This trend continued in a slower pace after 1957. By 1976, the heavy sector accounted for 53.4% of Shanghai’s industrial output. This structural transformation was due to China’s heavy-industry-first policy whereby the lions share of state investment was put into heavy industry. It has been estimated that investment in Shanghai’s light industry accounted for only 4.3% of the city’s industrial investment (Tian, 1996).

Table 5.3 Shares of Heavy, Light, and Textile Industries in Total Gross Value of Industrial Output in Shanghai, Various Years 1949-1975 (%)

	1949	1957	1962	1975
Heavy industry	13.6	36.5	50	53.4
Light industry	24.0	26.9	50	46.6
Textile industry	62.4	36.6		
Total	100	100	100	100

Source: Howe (1981: 160)

Heavy industries such as steel and petrochemicals which were a major component of Shanghai’s heavy sector were highly resource-intensive. The rapid growth of heavy industry led to a rapid increase in consumption of raw materials such as coal, petroleum and iron. From 1949 to 1979, Shanghai’s GDP increased by 9.5 times, while the consumption of energy and steel increased by 24 times and 75 times respectively (Zhu, 1994). As Shanghai lacks all raw materials, they all had to be transported in, which fed further the already congested traffic in the city. Shanghai increasingly looked like a mega-factory while losing its glory as a centre of finance, trade and commerce in the Far East in the 1920s and 1930s.

5.4 Spatial morphology

The development and land-use pattern of socialist cities differed fundamentally from that of capitalist cities. In the capitalist city, private property and urban planning are two major factors in shaping the land use pattern. Urban planning, as the political input to determining the physical structure of a city, although strong from a legal point of view, is however highly restricted, since private property rights are strongly protected by law. In state socialism, state ownership of land and the centrally planned investment system provide ideal prerequisites for urban planning. Socialist principles about the urban development such as equal accessibility to all public amenities and non-spatial segregation were supposed to be implemented totally by political decision (French and Hamilton, 1979). However, in reality, the implementation of these socialist principles was not without constraints.

The first and probably the most important constraint is history (French and Hamilton, 1979). Socialism could not be built overnight, and nor could its cities. The socialist city has to be built upon the physical structure set by the previous social system. As a result, a socialist city normally has two distinctive parts: the pre-socialist inner city which might be partially changed under socialism and the socialist outer area which is located in the periphery of city and which is characterised by planned uniformity. Socialist Shanghai's spatial morphology had this character. The basic physical structure of inner Shanghai, laid down in its colonialist era, had not been changed, although all the houses were nationalised and the function of many prestigious buildings had been altered. The biggest physical change was probably the conversion of the horse-race course into a huge square where political rallies and parades could take place. The building of large squares in the central city for political reasons was a common feature in many big cities in socialist countries (French and Hamilton, 1979).

Picture 5.1 is an aerial photography taken in 1937, which shows a clear bird's-eye view of Shanghai's horse-race course. The horse-race course, built by British in 1862, was located in the British-controlled international settlement, which was turned into

Picture 5.1 The Horse-race Course in Downtown Shanghai in 1937



Source: Wu (2002: 21)

Picture 5.2 Partial View of People's Square in the late 1990s



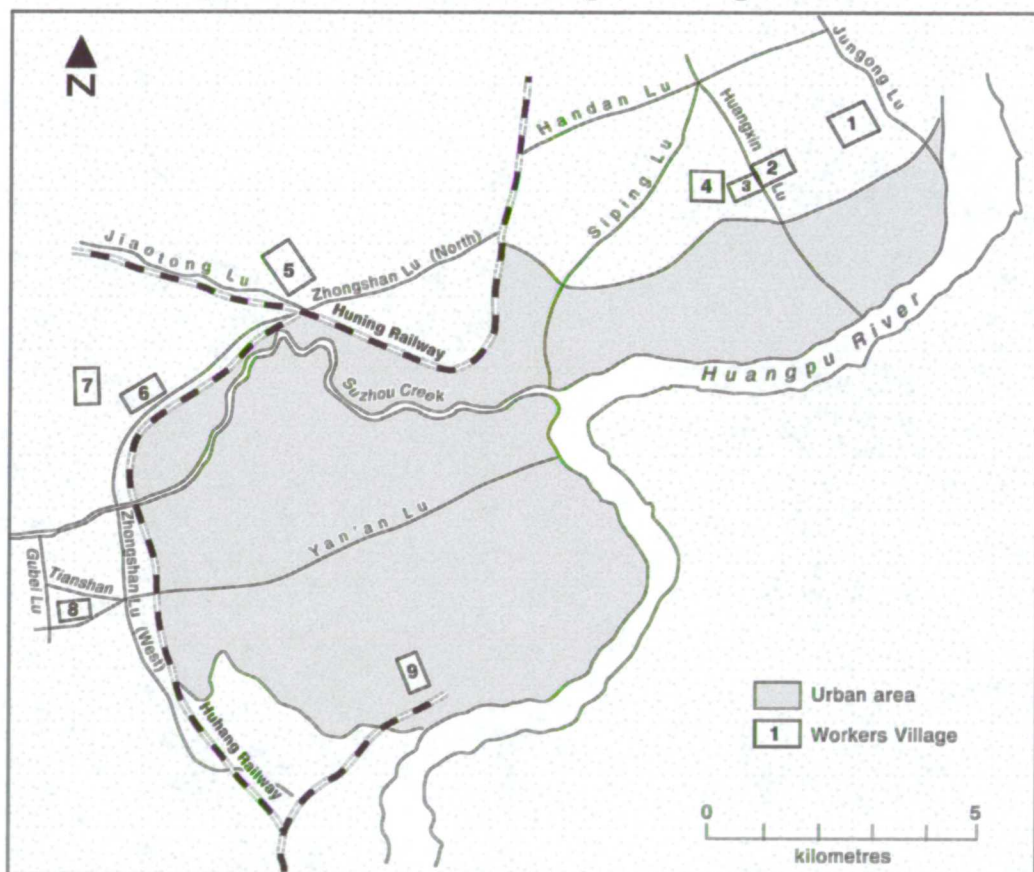
Source: Courtesy of Xinfu Xie

Shanghai's centre in early 1900s. In the upper side of the picture, we can see the Bund standing alongside the Huangpu River with Pudong in the other side of the river. Due to its size and central location, the horse-race course had become one of Shanghai's most significant landmarks since it was built. After the communists took

power in 1949, the horse-race course, seen as a shameful colonial legacy, was converted into People's Square where political rallies took place.

The physical structure and the political function of People's Square had not changed until 1990s when China's market-oriented reform entered its second decade. Taken in the late 1990s, Picture 5.2 shows a part of the reconstructed People's Square. In the centre of the square stands the newly built Shanghai's Municipal Government Building, opposite to which is Shanghai Museum. Around the square is a circular road – a clear legacy of the horse-race course.

Figure 5.2 New Workers' Villages in Shanghai, 1952



Source: Fung (1981:296)

In contrast to the urban core area, Shanghai's fringe area experienced a great deal of physical development with a distinctive socialist imprint (Fung, 1981). Not long after the communist take-over, the city government started to build large-scale housing project for industrial workers in peripheral areas in order to alleviate the high

population density problem in the central city. The housing project, called “workers new village” in China, was similar to the *mikroraion* that became the basic building block of the Soviet city (Smith, 1996). It comprised a neighbourhood unit of living spaces in the form of blocks of flats, for perhaps 5,000 to 15,000 people. Within a short walking distance, people can find a wide range of day-to-day needs services such as schools, day-care facilities, markets, clinics and other public amenities. To avoid long-distance commuting between the places of residence and factories, all the new villages were located in close proximity to the existing industrial districts (see Figure 5.2). The *mikroraion*, with its similar or identical blocks of flats and the equal accessibility to public services for workers, embodied socialist ideology of equality in living standards. It has been argued that “how far a city as a whole could be described as socialist in its physical organisation was largely a matter of the extent to which it was dominated by the *mikroraion*” (Smith, 1996).

However, these nine workers housing projects completed in 1952 were the only one that the SMG had ever built in such a large scale. Since then, most housing was built in the way in which Shanghai’s spatial morphology, which was supposed to be highly planned, ended up with disorganised land use pattern characterised by the mixture of the residential area and the industrial area.

This mixed land use pattern led us to the second constraint facing urban planners in socialist countries, i.e., the priority that was given to the industrialisation by the state. This is particularly the case with China where the government gave an overriding commitment to the industrialisation-first policy. Under this strategy, urban planning was highly subordinated to economic planning and the function of urban planning was to translate economic planning into a physical blueprint (Yeh and Wu, 1996; Wu, 1997). In fact, the subordination was such that planning permission was normally not a concern for a project manager because it would be given automatically with a successful application of the project.

As a result of its centrally planned economy, China had a centrally controlled investment allocation system that was based on the economic sector. Under this

system, all medium and big projects* had to be submitted to the Central Planning Commission (CPC) for approval and the provincial government only had the authority for small projects using its own coffers. In this procedure, a project hatched by the state work unit or the ministry was proposed by its responsible ministry to the CPC. Upon the approval by the CPC, it would be given a certain amount of money and together with it a parcel of land which was usually on the urban edge where unoccupied land was available. The CPC assessed the project on the basis of a so-called “comprehensive balance” (sectoral vs. territorial; central vs. local; sectoral vs. sectoral; local vs. local) and the use of land was not its concern (Wu, 1997). The city where the project would be located was only notified when the project had been approved. The municipality did not participate in the planning stage, nor did it have right to intervene with the use of land. The work unit negotiated directly with the *de facto* landowner (farmers in most case) to acquire the land for construction. The involvement of the municipality was minimal apart from issuing the land acquisition permit (Yeh and Wu, 1996; Wu, 1997).

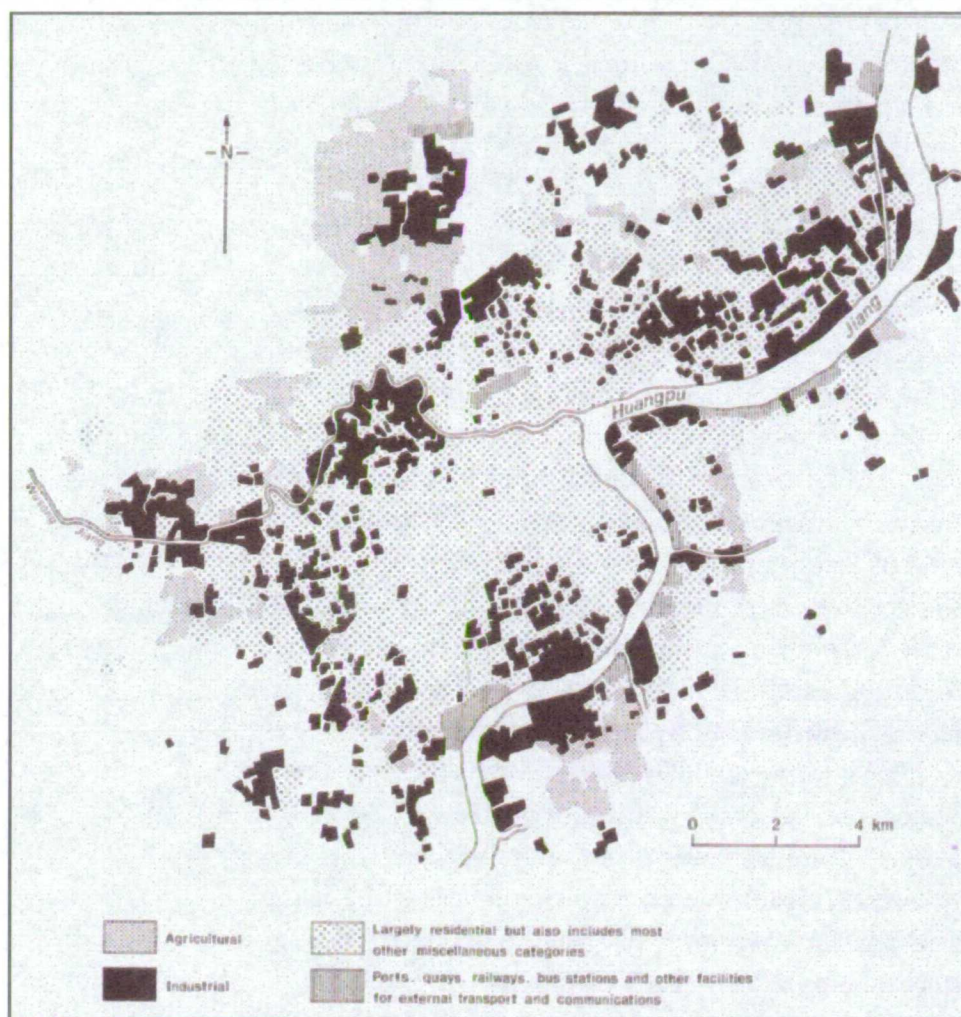
This kind of development method has been called “sectoral based, project-specific development” (Yeh and Wu, 1996). Under this system, land was actually held by various state work units that belonged to different ministries, and the urban landscape was in fact the by-product of the constellation of various projects. As a result, land management that was supposed to be unified under the socialist public-owned land system was in reality highly fragmented, leaving the municipality powerless in control over its own landscape.

Figure 5.3 is a simplified version of Shanghai’s land use structure in 1990. A decade after the introduction of market-oriented reforms, the figure still shows clearly the legacy of the socialist land development method – the fragmented use of land in and around the city proper. Land used for industrial purposes scatters over the city proper. Even in districts such as Xuhui (southwest part of downtown Shanghai) that is characterised as a high-grade residential area, where most of the city’s leading

* The criteria for the medium and big project vary. Before the end of 1984, the project with investment of RMB 10 million or above fell into this category.

politicians and administrators live, there are many factories mixed in among the residential estates.

Figure 5.3 Land Use in Shanghai circa 1990



Source: Adapted from Hodder (1990)

In socialist China, city governments were indifferent to the provision and maintenance of urban infrastructure for two reasons. First, under the centralised fiscal system, they had a very limited revenue for their own use because the bulk of the expenditure came from the central government. So, city governments did not have enough money to provide urban infrastructure which required a large investment, even they wanted to (Yeh and Wu, 1996). Second, city governments tended to spend their limited revenue on local enterprises from which they drew their own income rather than on collective consumption items such as urban infrastructure

(Wu, 1997). This reluctance to invest led to the deterioration of urban infrastructure in urban China.

Because of the lack of urban amenities, particularly the underdeveloped public transportation, work units always tried to build their projects in the central city in order to make most use of the existing urban infrastructure. When projects had to be located in the city edge, work units tended to build their residential areas adjacent to industrial area so that workers could avoid the long distance commuting. The associated public services were also provided within the residential area, similar to the *mikroraion* but on a smaller scale. These self-reliant communities were very common in CPC-approved projects. In the investment package of projects approved by the CPC, there were normally two kinds of investment: productive investment which was the major part for the project, and non-productive investment which was allocated proportionally for worker's housing and associated community services. In other words, to facilitate production, each project had to provide for investment in services and infrastructure (Wu, 1997, 1998).

This project-specific development, together with the inadequate provision of urban infrastructure brought about a mixed land use pattern in Shanghai's physical structure. In the inner city, while more and more service sectors disappeared, factories and particularly the small factories run by the sub-city government and the local residents committee were wedged into the residential areas. In the periphery of the city, self-contained communities were scattered around. As a result, the mixture of residential areas and industrial areas became a typical feature of Shanghai's pre-reform built environment (Yeh and Wu, 1996).

5.5 Social stratification

The CCP came to power with the promise that class would be abolished and social equality would be established in socialist China. True, under state socialism, China was more equal with respect to income than other developing societies. Research by Parish (1984) shows in early 1970s China's gini index of the inequality in terms of

household income was 0.25 comparing with 0.46 in twenty-three developing market states. China was even slightly more equal than the average socialist state. However, social stratification did exist in socialist China as it did in other socialist countries.

This social stratification was of course fundamentally different from that in capitalist societies. The difference lay not only in the sheer size of income gap, but more importantly, in the stratification mechanism. The stratification system in state socialist societies was basically an outcome of the redistributive economic system, where the state's bureaucratic concerns overruled market coordination (Szelenyi, 1978). Unlike market economies where the major determinants of social stratification were individual and familial background characteristics, either ascribed or achieved, in state socialist societies, an individual's economic and social position depended on the person's location in the state allocation system.

An important question then, is, what are the major factors affecting a person's location in the state allocation system? Four major factors have been identified in China: (1) sector that refers to the position of an individual's employer (work unit) in the state-collective ownership hierarchy of the society, (2) region, and (3) individual's political capital and (4) human capital (Wang and So, 1994). In urban China, however, the focus has been on China's unique system of work units. The major finding is that people in urban China were socially stratified by the work unit they belonged to. While there was a high degree of equality within the same work unit, there was a considerable differentiation across different work units (Walder, 1989; Xiao et al, 1990; Bian, 1994; Bian and Logan, 1996).

A work unit refers to the workplace of an urban resident in China. Work units were officially classified into three broad categories: profit-making enterprises, non-profit institutions and party and government agencies. Despite the different functions, government administration was the core of these agencies. In fact, all work units were operated directly by the government's system of administration. The work unit was of course far more than an economic organisation where people earned their wages. It had always been the central institution through which the communist regime exercised control over the society (Schurmann, 1968; Whyte and Parish, 1984). Bian (1994) summarises three non-economic functions of the work unit: as an

administrative unit to administer the country, as a political vehicle to control workers, and as a welfare organisation to distribute goods and services.

Although all work units were public owned, they were segmented by the extent to which the state claims its ownership rights over the economic properties of work units. After the socialisation campaign was completed in 1956, the Chinese urban economy contained three forms of ownership: a predominant state sector, a dependent collective sector, and a tiny private sector. The properties of a state organisation (eg. state-owned enterprise (SOE) as a state economic organisation) are owned by “all the people” of the country. In contrast, a collective organisation’s (eg. collective-owned enterprise (COE)) properties are owned by its employees. Although both state and collective organisations were regarded by the party as publicly owned, to the Chinese leadership the state sector was ideologically “more advanced” because socialist ideology required the state to control the means of production and consumption. This ideological affection for state ownership resulted in the state sector being treated favourably in comparison with the collective sector in retaining economic resources, business opportunities and incentives (Bian, 1994).

Work units were also differentiated by the way in which they were organised and operated, both horizontally and hierarchically, by the government administration (Bian, 1994). In China, the government administration is composed of five bureaucratic levels: (1) central; (2) province, autonomous municipal city, or autonomous region; (3) city or prefecture; (4) urban district or rural county; and (5) urban sub-district or rural township. Within each level, administrative branches (i.e., central ministries and local bureaus) are established to control work organisations and coordinate economic activities. Every enterprise or institution belongs to an administrative ministry or bureau at one of the given levels of administration. In the case of Shanghai, there were four levels of administration: central, municipal, district and sub-district, to which all work units belong.

Every work unit was also ranked bureaucratically. The higher level the work unit belonged to, the higher bureaucratic rank was given. For example, the central-run organisations had high bureaucratic ranks, ranging in positions close to the rank of ministry (for an industrial complex) down to the ranks of division (for single-unit

factory or branch office). In a centrally planned economy where all resources were centrally distributed along administrative lines, a higher level of government had greater ability to acquire economic resources and incentives, and thus allocated them to the enterprises and institutions under its jurisdiction. As a result, a pattern of differential resources distributions was formed in which the allocation of resources and incentives favoured organisations that were operated by higher levels of government and within each level, by work organisations with a higher bureaucratic rank (Bian, 1994).

The ownership structure and the bureaucratic structure constituted a complex net of work unit systems in which every work unit found its own place. Work unit resources depended on their location in this net – its location in the state allocation system – rather than on its performance or profitability in a market sense (Walder, 1989, 1992). The area where work units demonstrated their differential ability to retain resources for their workers was mainly not in terms of wage income, but the non-cash incomes that were subsidies and incomes in kind such as ration coupon subsidy and housing subsidy. For most of the time in socialist China, bonuses as well as other material incentives were rare because they were branded as capitalist ways. Wages were then almost people's only cash income.

The wage system in pre-reform socialist China was basically adopted from Soviet system with various modifications in different periods. Under this system, wages were regulated by the central government using complex pay scales that varied by region, industry and occupation (Korzec and Whyte, 1981; Bian, 1994). These scales also depended on seniority, work performance, political activity and so on. To promote an egalitarian society, the difference between wage scales was set to be small – a difference of only several *Yuan* between two consecutive standards (Korzec and Whyte, 1981). This centrally – regulated wage system was the most important factor equalising people's income in socialist China.

Within work unit, egalitarianism was the common norm. The wage difference was small, and more importantly, workers in the same work unit enjoyed similar access to the welfare system. Across work units, however, a relatively considerable discrepancy has been found. Table 5.4 shows how two major structural variables –

ownership and bureaucratic hierarchy – affected people’s wage in different work units in 1980. First, there was a bias in favour of the state sector. Wage levels were higher for state workers than for collective workers. Second, wage levels were higher for organisations run by higher administrative levels. From state sectors run by central ministries to township collective, the average annual wage level decreased accordingly from RMB942 to RMB 570 in 1980.

Table 5.4 Average Annual Wages by Structural Variables in 1980

	Average Annual Wage (RMB)	Differential index*
(1) By ownership		
Total	779	100.0
Foreign capital enterprises	789	101.3
State enterprises	859	110.3
State-collective joint ventures	748	96.0
Collective enterprises	629	80.7
Other types	505	64.8
(2) By Bureaucratic Hierarchy (state and collective only)		
Total	754	100.0
Central ministry	942	124.9
Provincial government	834	110.6
County government	729	96.7
County collective	638	84.6
Urban street collective	592	78.5
Township collective	570	75.6

Note: *Calculated by dividing the average wage for the category by total average wage, multiplied by 100.

Source: Bian (1994: 164).

This wage inequality across different types of work units was, however, of secondary importance compared to the discrepancy of non-cash income, i.e., variations in access to public goods, such as housing (Whyte and Parish, 1984; Walder, 1986, 1992). In a redistributive economy, non-cash income plays far more important role in determining people’s total income than the case in a market economy where the monetization of people’s income is a norm. Many goods such as housing that may cost a very large amount of money in capitalist societies were regarded as public welfare and therefore provided by the state. Research conducted by Griffin and Zhao (1993) found that, ten years after the reform policies were introduced by the Chinese government to eliminate egalitarian structure, subsidies and incomes in kind still accounted for 39.1% of urban residents’ total income in 1988.

Due to the importance of non-cash income, accessibility to public goods particularly housing became the decisive factor affecting people's real income. Again, people's accessibility to the public goods depended on their work units' capability to obtain resources from the state, because public goods were allocated through work units. Compared with the wages that were regulated by the central government, subsidies and incomes in kind were more dependent on an individual work unit's ability to negotiate with the government. Housing was a typical case in point. As mentioned before, housing was often built in the form of specific-project developments in which investment for housing was included in a package of investment for the whole project. How much a work unit could get for housing was highly dependent on its capability to seize business opportunities, and when it got the project, on its capability of negotiation with the government. Again, high rank work units such as central-run SOEs occupied more favourable positions in this regard. This was demonstrated by the fact that people working in the higher rank work units were more likely to have better housing.

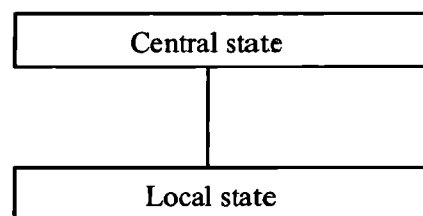
In sum, China and in this case, Shanghai, enjoyed relatively high social equality. Income distribution among the working-class population was relatively egalitarian because of the centrally controlled redistribution system. However, earnings from state owned resources were not distributed directly to producers (workers and peasants), but were collected by the state and redistributed to individuals according to their positions in the state's politically defined and ranked bureaucratic system. In this redistribution system, the state work unit system was critical for people's incomes and standard of living, because the redistribution was carried out through work units that were differentiated from the dimension of ownership structure and of administrative structure. In other words, inequalities among individuals were mediated through inequalities among work units. People were, therefore, stratified not so much by their own characteristics as by work units to which they belonged.

5.6 Key state-capital relationships in Socialist Shanghai (1949-1978)

The victory of the Communist party in 1949 brought about a revolution which put an end to capitalist Shanghai. Under the highly centralised Communist party system and

the Soviet-style centrally planned economic system, Shanghai lost its position as an independent economic unit. The relationship to the west, which had been so critical for Shanghai's successful economic development since 1842, was completely cut off. International capital no longer existed. Most of national capital had fled to Taiwan, Hong Kong and overseas, and the remaining capital was nationalised. Private capital was then abolished as required by the socialist ideology.

In contrast, the state, particularly the central state, was the dominant force that decided Shanghai's fate. The key actors in Shanghai's urban development, therefore, were the predominant central state and to much less extent the local state, and the role of capital as an independent actor disappeared in the state-capital relation that underlies Shanghai's urban development:



As discussed in terms of economic base, spatial morphology and social structure, this state-defined relationship has transformed Shanghai from a capitalist cosmopolitan city into a socialist "production city". Although it still played a very important role in the national industrialisation, Shanghai was isolated with the world economy, and lost its role as the financial and trade centre in the Far East.

The absence of capital in the key state-capital relationship was going to be changed by market-oriented reforms and open door policies adopted by the Chinese government in the late 1978. The introduction of capital and the emergence of a new state-capital relationship that comes with it, will have had a profound impact on Shanghai's urban development. The next chapter will examine how the reform redefined the role of the Chinese state (the central and the local), and the impact of this redefinition on dynamics of Shanghai's urban development.

Chapter 6

THE CHINESE REFORM AND ITS IMPACTS ON SHANGHAI'S URBAN DYNAMICS

6.1 Introduction

Chapter 6 aims to show how China's reform policies redefined the role of the Chinese state both at the central and local level, and how reform policies affected dynamics of Shanghai's urban development. Developmental state theory, particularly Gordon White's works (1984, 1993) on the developmental state, is employed in understanding China's reform as a process of redefining the Chinese state. This redefinition is, however, gradual and partial. While it has changed the state-capital relationship, the state-party relation remains intact. The change in the state-capital relation, and of the central-local relation that goes with it, has led to the rise of local state corporatism. This local state corporatism has sought to build a partnership with the non-public sector, which led to the emergence of a socialist pro-growth coalition between the local government and international investors in Shanghai. The chapter then examines the impacts of China's reform on the mechanism of urban development from three interrelated aspects: 1) investment source; 2) development organisation; and 3) urban planning system.

6.2 China's reform and the new political economy

The Third Plenum of the 11th Central Committee of the Chinese Communist Party (CCP) which took place in December 1978, was in many ways a milestone in the history of the People's Republic of China. It officially proclaimed the market-oriented reform and open-door policy which has since dramatically transformed the Chinese society. As some note (Olds, 1995; Wu, 1997), the adoption of this new

policy was primarily internally induced an internal response to the failure of Maoism.

By the time of Mao's death in September 1976, radical Maoism had led China to what was officially called "the brink of collapse". In economic terms, after nearly thirty years of socialist development, the pace of economic advance was erratic with marginal capital-output ratios in industry deteriorating and labour productivity in state industry static or declining (White, 1993). In spite of the massive investment in agriculture in which the Maoists took great pride, agricultural output per labourer only rose 5 percent in real terms over the whole period 1952-1978 (Nolan 1990: 11). The incomes of the mass of the population, in both cities and countryside, were either stagnating or rising very slowly, as were levels of real material welfare, such as consumption of food and light industrial products, or availability of housing (ibid.).

Such disappointing economic performance resulted in a widespread social dissatisfaction with the CCP regime which even in the Maoist period, rested heavily on its ability to improve the living standards of the population (White, 1993). Different sectors of society became increasingly disillusioned with the promises and propaganda made by the radical Maoists that "Socialist China has been improving day by day while capitalism has been deteriorating day by day". This said, however, the more decisive factor in propelling party leaders towards economic reform was a political one. Since 1949 China had continuously experienced the political instability and conflict which culminated in ten years of Cultural Revolution (1966-1976) when the party was virtually at war with itself. Wave after wave of political campaigns brought in by radical Maoism not only greatly intensified the economic suffering from the familiar deficiencies of Soviet-style planning, but also disrupted everyday life, set people against each other and created growing mass resentment. Many thousands of people including members of the party and state officialdom were sent to labour camps (The reform leader Deng Xiaoping was himself purged twice after 1949). Popular attitude to politics changed to cynicism, apathy or active opposition. In a nutshell, in the mid-1970s, there was clearly a widespread social mandate for change (White, 1993).

This internally-induced change was, however, gradual and partial as shown in the Box 6.1 an antithesis of the “big-bang” and “shock-therapy” approaches advocated so often in Eastern Europe.

Box 6.1 – Chronology of China’s Key Reforms

1978	Start of economic reforms and open-door policy
1979	Passage of joint venture law
1980	Creation of four special economic zones in the south-eastern provinces, Guangdong and Fujian (Shenzhen, Zhuhai, Shantou and Xiamen)
1981	Beginning of land reform
1984	Start of corporation reform Opening of another 14 coastal cities (including Shanghai) Hainan Island became a special economic zone
1985	Creation of foreign exchange swap centres in Shanghai and Shenzhen Pearl and Yangzi River Delta opened to foreigners
1987	Start of price reform Passage of bankruptcy law
1988	Hainan special economic zone upgraded to provincial status
1990	Stock exchanges established in Shanghai and Shenzhen The development of Pudong, Shanghai officially launched
1992	The service sector opened to foreign investment
1993	Socialist market economy included in the constitution
1994	Tax reform and introduction of single exchange rate Beginning of banking reform
1996	Foreign banks are allowed to conduct RMB business in Pudong
1998	Reform of SOEs was made the priority
1999	China agreed a deal with the USA, which paves the way for China’s accession to the WTO

Source: adapted from Olds (1995: 230)

It started with a consensus among party leaders that Maoism had failed in achieving China’s socialist development and it should be rid of, but there was no “plan” of reform in the sense of a clear idea of some ultimate end-state and a series of steps or phases to reach it. Instead of rushing ahead with a comprehensive, radical transformation of the entire system that would threaten the vested interests of many groups, Deng Xiaoping and his allies employed an incremental approach, “taking one step forwards and looking around before taking another” (Shirk, 1993: 129). As widely noted in China, their approach to reform is that reform is like wading across a

river on rocks, implying that they do not know where the next rock is until they step on it.*

China's reform was also partial in the sense that the reform has been primarily confined to the economic domain where the market mechanism was introduced and expanded gradually while China's political system of communist authoritarian basically unchanged. This position is vividly reflected in Deng Xiaoping's "Four Basic Principles" which were written into China's constitution of 1980, that is, while the economic reform proceeds, China will stick to the principal of "Marxist-Leninism and Mao Zedong thought, Leadership of Communist Party, Socialism, and Proletarian Dictatorship".

Strategically, the main feature of China's incremental reform can be best described as a "dual-track" approach which can be defined as follows:

- 1) in one track, the "plan track", the existing central economic plan, and the distribution of rents under it, are left intact; and
- 2) in the other track, the "market track", liberalisation is carried out at the margin, that is, economic agents have both the right and the incentive to participate in the free market provided that the obligations under the original plan are fulfilled (Lau, 1998: 52).

Obviously, the distinction between the "big-bang" and "dual-track" strategies lies in the role played by the pre-existing central plan. While the former tends to replace the plan by the market in one shot, the latter combines the pre-existing plan and the newly introduced market. The adoption of the dual-track system is highly path-dependant, stemming from China's particular pre-reform political economy context in which the party still honoured the political ideology of socialism on which the central planning system was based. In order to gain a political consensus within the party, which is critical to propel economic reform in China, the reformers adopted this pragmatic way to accommodate the interest groups vested by the old system (White, 1993; Shirk, 1993). Although the dual-track approach prolonged the reform

* Fan (1994: 103) suggests that the term "piece-meal approach" is a more accurate description than "gradualism" for China's reform.

and encountered numerous problems, it was politically very successful, which allowed Chinese reform to be carried out continuously at least in economic terms.

The two decades of the economic reform from 1979-1999 can be divided into four main phases, each with its own sub-phases. The first ran from the Third Plenum of the 11th Central Committee (hereafter XI) held in October 1978, to the Third Plenum of the 12th Central Committee (hereafter XII) held in October 1984. The first phase has been called “the era of agricultural reform” which was dominated by the policies designed for the agriculture sector, although the reform policy started in other arenas as well. A sweeping series of institutional reforms introduced in this phase dismantled the previous three-tiered commune system of collective agriculture and brought a reversion to *de facto* private agriculture based on the “responsibility system” in which the peasant household (and not, as before, the production team) was responsible for production. Although there was clear evidence of a “stop-go” or cyclical rhythm to the policy process, the first phase of reforms did make significant progress and has been widely regarded as a resounding success (see Bowles and Dong, 1994; Cannon and Jenkins, 1990; Nolan and Dong, 1990; White, 1993).

The success of the first phase of reforms created considerable optimism among reform leaders and they attempted to follow up their success in agriculture by accelerating reform of the urban/industrial economy. However, this decision ratified at the party’s Third Plenum (XII) in September 1984, led to increasing disagreement between more conservative and radical reforms over the conduct and ultimate objective of the reforms, a problem that has never been resolved in the reform process. The conservatives tried to maintain central planning as the dominant way of managing the economy while keep the market operating within tight limits. By contrast, the reformers sought a more radical break with the past, arguing that in an advanced economy, only markets are capable of guaranteeing a rational allocation of economic resources and they should become the prime mover of the economy, and hence, the traditional planning system should be dismantled. The difference between these two groups widened as the second phase of reform ran into increasing problems from 1985 onwards, which ended with a tragic culmination in the Tiananmen crackdown on June 4, 1989, in which hundreds of people were killed and the reform

leaders including the general secretary of CCP Zhao Ziyang were purged (Yu and Harrison, 1990).

The Tiananmen tragedy began the third phase of China's reform which was brought to an end by Deng Xiaoping in March 1992. In the aftermath of the Tiananmen crackdown, party conservatives introduced a course of action, ratified at the party's Fifth Plenum (XIII) in November 1989, seeking to limit the pace and scope of the economic reform and eliminate its unacceptable political and social repercussions. These conservative policies, however, stifled economic development, which dissatisfied China's paramount leader Deng Xiaoping who tried to regain the momentum of reform by a southbound trip to Shenzhen, in Guangdong province in which he made a series of speeches calling for a further market-oriented reform.

Deng Xiaoping's "Address of South Tour" started the fourth phase which has lasted to date. If, in China's dual-track transition, the first phase can be called "a planned economy with some market adjustment" and the second phase "a combination of plan and market", the objective of the fourth phase is to establish "a socialist market economy", an objective which was ratified at the Third Plenum (XVI) in November, 1993. Fourteen years after the CCP launched the reform policy, it finally established that what they seek is an economy in which the market would play the central role in resource allocations.

A series of measures have since been introduced to further the market-oriented reforms and tackle the problems which have been deemed vital for the establishment of a healthy market economy, including: 1) overall establishment of factor markets, i.e., capital, labour, real estate, and technology and information markets; 2) the reform of the state-run banking system; 3) the reform of the taxation system; 4) the reform of state owned enterprises (SOEs) (Lau, 1998). These four reform areas had been either stalled due to the complexity of the problems involved, as in the last three areas, or been conducted out of the public eye due to the ideological obstacles towards the relationship between the plan and the market, as in the first area. Now that the ideological hurdles have been cleared except for the public ownership (*de facto* privatisation has been widely undertaken since 1992), China's reform has entered into uncharted territory, whose consequences remain to be seen.

There are innumerable of books and articles on China's economic reforms from various standpoints (e.g. Cable and Ferdinand, 1994; Cannon and Jenkins, 1990; Fan, 1994; Kueh, 1992; Nolan and Dong, 1990; Shirk, 1993; White, 1991, 1993). Here I will just focus on one major aspect, i.e., the changing role of the state and therefore the changing relationship between state and economy, since the redefinition of the role of the state is indeed at the core of the reform, and perhaps more importantly my research, it is the changing role of the Chinese state that has driven Shanghai's urban restructuring in the post-reform era. For this purpose, I will draw on developmental state theory on which my analysis of the changing role of the Chinese state is based.

6.3 Developmental state theory

The developmental state model originated in Japan and later spread to other East Asian Newly Industrialised Economies (NIEs include South Korea, Taiwan, Singapore and Hong Kong and are often referred as "Four Little Dragons"). Over the past decade it has ascended to the status of the leading paradigm for the study of the East Asian political economies (Amsden, 1989; Chan et al, 1998; Deyo, 1987; Evans 1995; Fallows, 1994; Haggard, 1990; Johnson, 1995; Simone and Feraru, 1995; Wade, 1990; White and Wade, 1988; Woo-Cumings, 1999). Scholars within this framework have basically argued that Japan and "Four Little Dragons" did not take the western-style pluralist democracy as a model for their developments. Instead, they have developed a new approach to the political economy, a new development strategy, and created a new Asian political and economic system, possibly a systemic new theory for capitalism and democracy (Fallows 1994; McCord, 1991; Thurow 1992).

According to Chalmers Johnson (1995: 28), a capitalist developmental state (CDS) has two characteristics: "the state-guided capitalist developmental system, or to put it in different terms, a plan-rational economy with market-rational political institutions." Manuel Castells (1998: 270-271) offers this definition for his "CDS":

A state is developmental when it establishes as its principle of legitimacy its ability to promote and sustain development, understanding by development the

combination of steady high rates of economic growth and structural change in the productive system, both domestically and in relationship to the international economy.

Xia (2000: 27-30) sums up four important characteristics for a capitalist developmental state:

- 1) There is an active role for the state and a collaborative relationship between the state and the economy. In contrast to the passive role of an instrumental state perceived by liberalism, the states in East Asia are “active states” or “strong states”. Their roles are far beyond providing a framework for the economy. They act as agents or transformers in both the economy and society (Caporaso and Levine, 1992: 181-196). Particularly, they are “market-fostering”, “market-facilitating”, and committed to nurturing markets.
- 2) The government provides an industrial policy. An industrial policy is the “development, guidance, and supervision of industry” by the government (Johnson, 1995: 64). According to many studies, the secret of success in East Asian developmental states is the implementation of “deepening industrial policies;” that is, the ability and flexibility of the state to “move in and move out of sectors, to promote this or that industry” (Cumings, 1987: 74, 81).
- 3) A dictatorship of development exists. A dictator (Park Chung Hee in Korea, Lee Kuan Yew in Singapore, Chiang Ching-kuo in Taiwan) or a group of ruling elites (in Japan) are in control. Fearing that a full democracy might lead these East Asian countries to spin out of control, the ruling establishment purposefully delays the process of democratisation (Johnson, 1995). This authoritarianism is often referred to as a “semi-authoritarianism”, “neo-authoritarianism”, “soft authoritarianism” or a “paternalistic authoritarian system” (Johnson, 1987; Berger and Hsiao, 1988), for it is development-oriented, based on meritocracy, and enthusiasm for social equity in the process of development. The legitimacy of such a system is not based on democratic procedures but on its economic accomplishments and performances.

- 4) The executive's dominance over the legislative institutions, or its administrative guidance is a typical institutional characteristic under a developmental state. In developmental state theory, the state is always identified with the "executive authority", "bureaucracy", or some important political-economic organizations at the national level. The administrative guidance pushes the economy forward. Basically, there is no place for the legislature and local governments.

These four characteristics are based on research on five well-recognized capitalist developmental states or areas (Japan, South Korea, Taiwan, Singapore, and Hong Kong). One central interest for academics is whether this model can be applicable to other countries, especially those that are huge in size and diverse in background, such as China.

The implementation of China's reform policies in the past 20 years has convinced many scholars that China has emulated the developmental state model (e.g. Cheng, 1998; Gilley, 1998; Overholt, 1993; Simone and Feraru, 1995; White, 1991; White and Wade, 1988). The Chinese reform has been led by a government that has been committed to developing a market system ("the Socialist Market Economy"). China had a deepening industrial policy run by the Chinese government's economic "general staff" – The Economic Planning Commission. Like the East Asian NIEs in their early stages of modernization, China has followed the same one-party authoritarian system to guide its economic development.

However, these similarities do not conceal two qualities that distinguish China from the other East Asian NIEs (Xia, 2000). First, China's territory is more than eighteen times larger, and its population is almost six times greater than the "Four Little Dragons" and Japan combined. The homogeneity of the economy and population found in these developmental states cannot be seen in China that is characterized by its huge size and regional economic heterogeneity. Second, its economic and political transitions are being carried out under the leadership of the Communist Party of China and thus are proceeding within the context of a different set of ideological background conditions. The socialist political and economic legacies (e.g. egalitarianism, Stalinist bureaucracy, and a centrally-planned economy) have imposed tremendous constraints upon this transitional process.

Considering its vastness and its Communist economic and political background, how has it been possible for China to emulate the developmental state model which is capitalist in nature and has originated primarily in relatively small countries? This is the question that has to be answered in the application of the developmental state theory to China.

6.4 The application of the developmental state theory to China

Since the introduction of reform policies, China has demonstrated two basic characteristics of a developmental state: a developmental dictatorship (hard government) and a market-oriented economy (soft economy). This demonstration has made many East Asia specialists believe that China has followed the developmental state model, and they tried to interpret China's reform in the context of the developmental state theory (e.g. Overholt, 1993; Perkins, 1986; White, 1988, 1991). Among these scholars, Gordon White's (1984, 1988, 1991, 1993) research has been one of the most systematic.

According to White (1993: 4-5), a "developmental state" is a state which sets out to promote national development by means of an institutionalised pattern of policy intervention guided by some kind of "plan" or strategic conception, and plays a central role in that process. This historically specific type of state, which emerged particularly but not exclusively in the post-war era of de-colonisation, is distinctive from the traditional liberal laissez-faire state or even the Keynesian managerial state in the sense that in the latter case the overwhelmingly important agent of socio-economic change was outside the state in the form of a capitalist economy and a civil society.

White (1988, 1993) argues that although developmental states in this broad sense take a wide variety of forms, in the context of East Asia they have fallen into two broad categories: "state capitalist" and "state socialist". In the former category, which includes South Korea, Taiwan and Japan, the state plays a central role as a

guiding force for national economic development including direct state involvement in the economy through the establishment of a substantial public sector. But they must be called “state capitalist” insofar as the main economic actors are private, operating in a more or less competitive capitalist economy. By contrast, in the state socialist category such as China, North Korea and Vietnam, the communist party/state, directly or indirectly, is the dominant economic actor, virtually to the exclusion of all others. Although state socialist countries contain enterprises such as factories and farms which have some degree of nominal independence, they are all to various degree directly controlled by, and dependent on the party/state.

White then takes a further step to identify a narrower, more precise sense of the term “developmental state”, as the state in its developmental capacity: those specific institutions, ideas and policy interventions which embody the socio-economic aims and actions of a given state. By this definition, he distinguishes the state as a developmental entity from the state as a political entity, characterised by a particular set of reigning political ideas, institutions and sources of political legitimacy. This separation between the developmental and political aspects of a state allows us to make a distinction between its developmental (primarily economic) capacity and its political viability. It is also very useful in analysing China’s market-oriented reform in the post-Mao era since the reform has been seeking a new type of socialist developmental state in this second, more precise, sense. White (1993: 6) says that the reform:

involves a redefinition of the state’s role in the economy in ways which bring it closer in many ways to the ‘state capitalist’ model to the extent that it disengages the state from direct economic involvement and increases the autonomy of productive enterprises, while retaining an integument of socialist political ideas and institutions. This project of ‘market socialism’ thus involves significant change in the developmental aspect of the state, but not in its political aspect. The contradiction between these two dimensions of change is at the root of the politics of economic reform in contemporary China.

Clearly China under Mao (1949-1976) can be understood as a “state socialist” developmental state in the above sense. However, it was a state socialist with Maoist characteristics, which particularly in the Cultural Revolution decade, intensified the major feature of the state socialist such as a hegemonic party dominance, the

exclusive state presence in the economy and vehement resistance to markets, and took them to extreme lengths. It was a form of “socialist development” that went far beyond mere economic improvement to include a wide range of social and political objectives, to be achieved through the pervasive intervention of an active party/state (White, 1993: 24).

As discussed earlier, this kind of Maoist developmental state failed in its developmental capacity to achieve proclaimed economic goals which undermined the credibility of the CCP regime. It was in response to the failure of the Maoist developmental state that the reform policy took place in 1978. So far, the reform has been successful in economic terms. But as White (1993: 6) points out, while economic success may strengthen the credibility of the current political regime, it may also bring about changes in social structure and attitudes which in the longer term undermine the political status quo as witnessed by the political evolution of South Korea and Taiwan in the 1980s. Paradoxically, therefore, economic success may lead to political failure.

White’s theses of the developmental state are theoretically useful in understanding the Chinese reform as a process of redefining the Chinese state in the sense that they help resolve two theoretical problems. First, his definition of the developmental state and particularly his categorization of state capitalist and state socialist extend the application scale of the DST into the socialist state. This theoretical extension removes the ideological barrier in applying the DST to the socialist state. According to White, as long as the state plays a central role in promoting national development, it falls into “the developmental state” no matter which set of ideology the state advocates. Second, his separation of the economic aspect of the state from the political aspect of the state is especially designed for the transitional state like China that has been moving economically to the “state capitalist” model while retaining its socialist political and institutions.

However, White’s approach does not tackle the other problems confronted in applying the SDT to China, i.e., China’s huge size and with it, the huge differentiation of its regional economy. According to the classic developmental state model, what is crucial to a developmental state is state capacity, which is defined as

the ability of a government in getting its job done and includes its capacity to mobilize society, to extract resources, to steer development and to legitimate the regime (Wang and Hu, 1993: 235). The secret of the model's success for maintaining state capacity relies mainly on two important institutional arrangements: the suppression of local autonomy and the negligible role of legislatures. However, China's reform started with decentralisation and legislative development. In the past 20 years, the local governments have been given regional property and autonomy, and the legislatures both at central and local levels were encouraged to expand their institutions and powers. Different from the other East Asian developmental states, the Chinese developmental state is defined and sustained by both the legislative and local political institutions. There is a dual structure from the central to local levels, between the governments and the legislatures (People's Congresses) (Xia, 2000: 3).

This "dual developmental state" has a two-tiered structure in which the developmental role of the central state is nested within the context of the central/local synergism (ibid.). Reform-minded central leaders led by Deng Xiaoping have encouraged local leaders to explore new policies and experiment with ideas in order to generate experiences and learn lessons. But since local leaders have come to need a mandate from the centre, the central state and local states have formed an interdependent relationship. The mutual needs of both levels of the governments have helped to establish and maintain equilibrium over the past two decades, despite the oscillating nature of the central and local power relationship. As a result, as the following sections will show, the dynamics of China's developmentalism cannot be solely attributed either to the central or the local governments. It has arisen out of their interaction, which in turn has mutually strengthened their developmental orientation.

6.5 Reform as the redefinition of the Chinese state

In the pre-reform Maoist system, the sphere of politics, administration and economics were intermeshed in practice: the state apparatus dominated the economy and the party pervaded both. This situation was regarded by the reformers as

problematic: “first, because direct politicisation of the state bureaucracy (through Party organisations) impedes the emergence of a more professional form of modern administration and, second, because excessive involvement by either the Party or the government administration in the affairs of productive enterprises is economically harmful” (White, 1993: 43-44). The intention of the reformers, therefore, was to separate out the institutional spheres of politics, administration and economics, to define their respective functions more precisely and to redefine the relationship between them.

The first separation that the reformers attempted to fulfil is between the party and government (*dangzheng fenkan*). The authority relationship between the communist party and the government is at the core of all communist political systems. “It is a delegation relationship”, as Shirk (1993: 55) notes,

in which the communist party is the "principal" and the government is the "agent". The party has formal political authority over the government but delegates to the government much of the actual work of administering the country”.

As a result, the relationship between party committees and government departments at the same administrative level and between party committees at one level and government departments at a lower level is one of “direct subordination” (Liu, 1988). The Chinese political system after 1949 was of course no exception (see Appendix 3 for authority relationships among communist party and government institutions). If there was any difference from the Soviet system on which it was modelled, the Maoists took the dominance of the party over government to extreme lengths. “Party groups” (*dang zu*), also called party “core groups” were established in all government agencies and took over the job of actually administering the work of the agency. At the enterprise level, Soviet party committees always limited their role to supervision of party members while allowing the manager full responsibility for the production, whereas the Chinese, after the Eighth Party Congress in 1956, put the manager under the leadership of the party committee (Ma, 1987). Under this system, therefore, the organisational lines between the party and government blurred, and the delegation relationship almost entirely disappeared (Shirk, 1993).

Acknowledging that such a party-government system greatly impeded economic development, the reformers have tried to modify the relationship, pulling the party back to the position where it is supposed to be: to set the overall policy line for the government and to oversee its implementation. Beginning in 1980 approximately, most of the bargaining over specific economic policies was shifted to the government arena. In 1987, specialised party departments overlapping their counterpart government departments were abolished at the provincial level, having earlier been abolished at the centre. In enterprises, the party took administrative responsibility from party secretaries and restored it to managers (ibid.).

None of these changes was, however, intended to destroy the authority of the party over the government, only to improve the quality of decision-making by putting the government on a longer leash (Shirk, 1993: 63). Even so, because it involved the reform of the state's political role which was regarded as an unchangeable area by the party conservatives, the separation of the party and government triggered substantial dissension within the party ranks and was carried out only to the extent that economic policy-making was shifted largely to the government arena. In the cyclical process of China's reform, whenever the conservative group within the party leadership strengthened its position, such as in the aftermath of the "Anti-Capitalist Liberalisation Campaign" in 1986 and the 1989 crackdowns, there was a clear turnabout in the party's line on the party-government relationship and the party was urged to restore its active leadership over enterprises, local governments and national government. As a result, as Shirk (1993:69) says, "Party oversight over the government bureaucracy continued to be of the tight, centralised, police-patrol type, and the party retained the authority to select government officials, propose policy initiatives, and veto policies that emerged from the government side".

The second area of separation is between government/state and the economy (*zhengci fankan*). In the pre-reform era, the economy was run as an administrative system through a complex system of central ministries and local government departments. The overwhelmingly dominant state-owned enterprises (SOEs), either run by the central state organisation or by the local government, worked more like

the extension of the government than independent units functioning at their own will^{*}. As such, these enterprises were bureaucracy-prone and economically inefficient. The reformers argued that the state must retreat from its excessive intervention in the economy and that the enterprise should become an independent economic unit operating in accordance with the rules of the market. In practice, they adopted an incremental way to achieve this separation, introducing and expanding the non-state sector while gradually releasing the SOEs from the grips of their “superior departments”.

Under Maoism, markets were diagnosed and treated as noxious “carriers” of capitalism, and the non-state sector including the private and even the lower level collective business such as the community-owned industrial enterprises were proscribed, pitilessly censured and object to severe punishment. The result of this private-phobia policy is shown in the Table 6.1. By 1978, there was virtually no industrial output from private business. Some 77.6 per cent of industrial output was produced by state-owned firms and the remaining 22.4 per cent by collectives which were also virtually state controlled. Indeed, the category of non-state sector first appeared in China’s yearbook in 1982 when its development speeded up after the government’s released its grip on the non-state sector. Parallel to the evolution of government’s attitude to the market, the non-state economic sector was recognised first as what is known in China as “a useful supplement to state ownership” under the hybrid economy of “a combination of plan and market”, and then as “an important component part of China’s socialist market economy”. With government slackening control, the non-state sector grew rapidly throughout the 1980s and 1990s.

Table 6.1 Shares of Industrial Output Value by Ownership Type in China (%)

Year	SOE	COE	Township and Village	Individual	Other
1978	78	13	9	—	—
1984	69	17.9	11.8	0.2	1
1988	56.8	18.4	17.7	4.3	2.7
1992	48.1	13.2	24.9	6.8	7.1

Source: China Statistical Yearbook '1993.

^{*} In fact, the state’s excessive involvement is such that economy as an independent factor in Shanghai’s urbanisation process can be ignored in this period as shown in chapter 5.

While the non-state sector was gradually given more room to grow “spontaneously” by itself, the focus of industrial reform has been on the SOEs. The bedrock principle of the enterprise reform was to expand the autonomy of the industrial enterprise. While this autonomy involved increasing power over a wide range of economic decisions, financial relations between state and enterprise were at the core of the reform in that financial relations embody the distribution of power, and define the relationship between state and industry. The central thrust of reform was to rectify a situation in which enterprise finances were controlled by state agencies which supplied expenditures and siphoned off net revenue, so as to allow enterprises to enjoy greater control over financial resources and display greater responsibility over their use (White, 1993; see also Zhang, 1999).

The first phase of reforming industrial finance, from 1978 to 1983, saw the gradual introduction of a system of profit-retention whereby an enterprise could retain a certain proportion of its net revenue for discretionary spending on productive investment, social welfare and wage bonuses, subject to certain official guidelines (White, 1993: 130). The profit-retention system increased dramatically enterprises’ discretionary funds in the “extrabudgetary” form. It was estimated that overall the state transferred about 28 billion *yuan* to enterprises in retained profits from 1979 to 1981 (ibid.). However, the profit-retention system decreased the state’s “take”, contributing to an emerging fiscal crisis in 1979-1980 and a rapid decline in the proportion of state fiscal revenue to national income. Meanwhile, the previous tradition of financial “politicking” between managers and officials did not change since most reforms of profit-retention still involved bargaining over the amount and uses of the retained funds.

In order to overcome the problems stemming from the profit-retention reform, a second, more radical stage of reform, “(changing) tax for profit” (*ligaishui*), was introduced in April 1983. In this system, the government would have its “take” via a more market-oriented way of tax rather than profit, and it would allow enterprises to retain all their after-tax profits and become fully responsible for their own profit and loss. As White (1993:132) points out:

In terms of increasing the economic autonomy of enterprise, 'tax for profit' was seen as a great improvement on profit-retention: it would normalise financial relations between state and enterprise in a 'hands-off' way by creating a standardised regulatory framework (in the form of differential tax-rates), thereby removing the previous annual 'politicking' between state agencies and enterprises over rates of profit-retention and reducing the intermediary powers of the industrial departments in the process.

However, the "tax for profit" reform ran into numerous serious problems resulting from a complex interplay of economic and political factors. The underlying problem lay in the fact that enterprise reform involves issues that went beyond the enterprise itself and even beyond the economic domain. Its success relied heavily on the success of reforms of relevant areas such as prices and basic factor markets. When the "tax for profit" was introduced, the basic factor markets and product markets were basically absent and most prices were controlled by the state. Without a rational price system at the macro level, profit were neither a good indicator to judge enterprise's performance nor a reliable base for government taxation.

In the spring of 1987, the "tax for profit" system finally gave the way to a "contract responsibility system" (CRS) (*chengbao zerenzhi*) in which enterprises' performance target, output quota to the state and financial obligation to government were all specified in a contract thrashed out by the negotiation between the enterprise and the government. It was seen as a regressive step. Instead of introducing a universal standard (tax-rates) which would help to disengage the enterprise from its bureaucratic superiors, it perpetuated the previous bilateral, "hands-on" type of relationship which left considerable discretionary powers over the enterprises in the hands of state industrial and financial departments (White, 1993).

Notwithstanding the continuous reform of the macro-economy in which SOEs were increasingly subject to the free market, the overall performance of the SOE sector remained consistently weak, fundamentally because they still operated under a kind of "soft budget constraints" endemic in socialist public ownership economy in which managers compete for the investment from the government and take no responsibility for the inefficiency resulting from the over-production (For detail about "soft budget constraints" in socialist countries, see Kornai, 1980). The new wave of SOEs reform did not come until 1992 when the CCP made another

ideological advance in interpreting “Socialism with Chinese Characteristics”. Under the socialist market economy, it was claimed that public ownership could be achieved in many forms (Report of the 14th Chinese Communist Party Congress, 1992). Among those forms are the “shareholding companies” advocated by the government as the modern enterprise system whereby companies are still controlled by the state as long as the state holds over 51 per cent of shares. Furthermore, it was argued that as long as the key economic sector remains public owned, then the whole economy would be still in the hand of the state. Following this theory, government put forward the current policy of reforming the SOEs, that is, “managing the larger SOEs and letting go the smaller ones” whereby the government will concentrate on 1,000 large SOEs and let go thousands of medium and smaller ones (Lau, 1998). Both the “corporatisation” and “managing the larger” policies will, of course, involve the widespread privatisation of the smaller SOEs, the merger of some, and a significant increase in closures, which could destabilise society in which there have been an estimated around 16-18 million urban jobless and more than 100 million seasonally out of work in the countryside (*Central Daily News*^{*}, January, 28, 2000). However, after having tried a variety of reform policies, the CCP seems determined to carry out the current policy of reforming the SOEs, regardless of the possible risks ahead.

Twenty years of economic reform has brought about changes in the nature of the Chinese developmental state, and particularly in the relationship between state and economy. Based on the above analysis, we can look into these changes from four perspectives: the pattern of ownership, the nature of productive institution, the relationship between state planning and markets, and the economic role of state organisations (White, 1993). The ownership structure was changed to the extent that the Chinese economy is now virtually a mixed economy in which the state sector continues to decline. In both rural and urban areas, the non-state sector has blossomed, and the foreign fund enterprise is the most rapidly increasing sector. A recent report by the World Bank-owned International Finance Company shows that China's private sector contributed 33% of Chinese GDP in 1998 while the state

^{*} A Taiwanese newspaper that has normally one page devoted to the collection of news in mainland China.

sector contributed 37% and the mixed-owned sector 30% (*Financial Times*, 11 May 2000).

Turning to the nature of productive institutions, changes in agriculture were relatively thoroughgoing as the introduction of the “responsibility system” (*zerenzhi*) brought about a reversion to household farming. In industry, however, the SOEs failed to change in their fundamentals, both in terms of their continuing subordination to state agencies and their internal organisation.

There were, however, fundamental changes in the balance between state planning and markets. Since the central plan has been basically frozen at the original levels, the output produced outside the plan (in the “market track”) has grown rapidly and the proportions of output that are sold and purchased at plan prices have declined continuously. Tables 6.2, 6.3, 6.4 present the values of the transactions in each of the agriculture, industry and retail sectors, that are conducted at plan, guide and market prices respectively. It is clear that by the early 1990s, most of the transactions were conducted at market prices. The plan has been phased out for many goods. In other words, the price reform based on the dual-track approach has been successful and the dual-track system has been converted into a market-track based system.

Table 6.2 Phasing out the Plan Track: Agricultural Products (% of output value)

	1978	1985	1986	1987	1988	1989	1990	1991	1992	1993
plan	94.4	37.0	35.0	29.4	24.0	35.5	31.0	22.2	12.5	10.4
price										
guide	0.0	23.0	21.0	16.8	19.0	24.3	27.0	20.0	5.7	2.1
price										
market	5.6	40.0	43.7	53.8	57.0	40.4	42.0	57.8	81.8	87.5
price										

Table 6.3 Phasing out the Plan Track: Industrial Goods (% of output value)

	1978	1985	1986	1987	1988	1989	1990	1991	1992	1993
plan	100.0	64.0	—	—	—		44.6	36.0	18.7	13.8
price										
guide	0.0	23.0	—	—	—	} 60	19.0	18.3	7.5	5.1
price										
market	0.0	13.0	—	—	—	40.0	36.5	45.7	73.8	81.1
price										

Table 6.4 Phasing out the Plan Track: Total Retail Sales (% of output value)

	1978	1985	1986	1987	1988	1989	1990	1991	1992	1993
plan	97.0	47.0	35.0	33.7	28.9	31.3	30.0	20.9	5.9	4.8
price										
guide	0.0	19.0	25.0	28.0	21.8	23.2	25.0	10.3	1.1	1.4
price										
market	3.0	34.0	40.0	38.3	49.3	45.5	45.0	68.8	93.0	93.8
price										

Source: Lau (1998: 66-67)

Finally, there have been concomitant changes in the economic role and behaviour of state agencies. In terms of the balance of power between state economic organs and productive units, it has shifted substantially in favour of the latter. The state has retreated considerably, both intentionally and unintentionally, from society in general and the SOE in particular. The economic departments of the government became more likely to behave in the way their western counterparts did. At the local level, we saw the rise of the corporate state behaving in accordance with “growth machine” politics (To be discussed in the next section). Apart from the retreat of the central government from its intensive intervention in the economy, this is mostly due to the major shift of power relationships between the central government and the provincial government, which is the topic of the next section.

In sum, the overall picture after two decades of reform is mixed, substantial change coexisting with substantial continuity. While it can be argued that a new type of economy in which the market plays the decisive role in resource allocations has been nearly achieved, the new form of developmental state and a new relationship between state and economy are still uncertain. It is a “half-way house” in which the new and old developmental states and economic systems are intertwined (White 1993: 77). The cause of the “half-way house” lies in the nature of Chinese reform: while changing the developmental aspect of state, the political aspect of the state remains intact. Whether or not this asymmetrical reform can be finally successful is beyond this research, but this “half-way house” has already had a significant impact on China’s urban development in general and Shanghai’s urban restructuring in particular.

6.6 Decentralisation and the new role of the provincial/municipal government

Alongside the changing relationship between state and economy, there has also been a major shift of economic power within the state: the decentralisation of power from central to local government at the provincial level and below. Indeed, the marketisation of economy and the decentralisation of state power can be seen as two sides of a coin, unfolding hand by hand in the process of China's reform. Again I will analyse the decentralisation by looking at the fiscal relationship between centre and localities.

6.6.1 Fiscal reforms

The pre-reform Chinese fiscal system was called "unified leadership, level-by-level management". "Unified leadership" meant that the central government determined provincial expenditure budgets and that provincial governments had little freedom to make their own decision. "Level-by-level management" meant that the profits of enterprises run by central ministries went to the central government, and the profits of locally run enterprises went to local governments (Shirk, 1993: 155). It was a system of centralised fiscal authority with some degree of *de facto* decentralisation to the provincial level and below. However, there was no division of authority and responsibility between central and local governments. Funds had been decentralised through the "level-by-level management", but fiscal responsibility had not. The system was one of "eating from the big pot" (*chi da guo fan*). Whenever unexpected economic developments landed provinces in financial straits, the Ministry of Finance (MOF) was expected to bail them out. According to the same principle, if the central budget was hand-pressed, the MOF could reclaim funds from the provinces by renegotiating the terms of annual sharing contracts.

The reforms introduced in 1980, popularly called "eating in separate kitchens" (*fen zao chifan*) were intended to clarify the responsibilities as well as the resources of each tier of government. The new contractual sharing system was seen fundamentally different from the old one in three respects:

1) Revenue shares were fixed for five years so that provinces could profit from increased in revenue and plan ahead. 2) Provinces were responsible for balancing their own budgets by adjusting their expenditures to match their revenues; they could no longer rely on bailouts from the centre. 3) Provinces had budgetary authority to arrange the structure and amount of local spending; they ceased to receive mandatory fiscal targets from the central ministries (Shirk, 1993: 166).

The new system was applied flexibly to the thirty provincial-level governments, establishing different rules for different regions. Among those, two rules are particularly relevant:

1) Guangdong and Fujian, regarded as in the forefront of reform, were granted the most generous plan. Guangdong would give the centre 1 billion *yuan* per year, and Fujian would receive as a subsidy 150 million *yuan* per year. The amounts were fixed for five years. The provinces could keep everything above these amounts.

2) The metropolises of Beijing, Tianjin, and Shanghai, which provided the lion's share of central revenues, were placed on the most restrictive plan. In contrast with the most provinces, the percentage of total revenue they were required to remit to the centre were revised every year. In 1980 Shanghai remitted 88.8 percent, Beijing 63.5 percent, and Tianjin 68.8 percent (Shirk, 1993: 167).

Although the revenue-sharing system encountered numerous problems in practice such as the unfeasible "fixed rates" in rapid changing macro-economic situations, the economic overheating accompanied by inflation, shortages, and the segmentation of the national market by local protectionism, it had been successful in achieving its main objective: to clarify the authority and responsibility over the revenue and expenditure between central and local governments so as to greatly stimulate the local governments to develop their local economies while guaranteeing steady increases in central income. Therefore, although there were many changes made to the revenue-sharing system (RRS), all involved tinkering with the specificity of the system (particularly the sharing ratios for the centre and individual provinces) and the basic principle of the system remained intact and it continued to function until 1993.

However, in the early 1990s, over ten years after the RRS was introduced, the fiscal situation was worrying for the central government. Although the absolute revenue had been increasing steadily, the share of central disposable revenue, which is the ratio of the sum of centrally-collected revenue and remittances from provinces through revenue sharing to total budgetary revenue, declined considerably. By 1992, the centre's share of disposable revenue was 38.6 percent, compared to 46.8 percent in 1979. Meanwhile the share of central expenditure dropped from more than 50 percent during 1979-84 to 28.3 percent by 1993 (Zhang, 1999: 121). Greatly concerned with the declining financial strength, the central government introduced the tax-sharing system (TSS), which, together with taxation reform was the core elements of a comprehensive reform package rectified by the Third Plenary (XVI) in November 1993.

The TSS, which is commonly used in the market economies, assigns in a permanent and unequivocal manner, specific sources of revenue to the central and sub-national governments to finance their respective spending responsibilities. Taxes are now divided into three categories according to the recipient of their revenue, namely central taxes, central-local shared taxes and local taxes. The central taxes include customs duties, consumption and VAT levied by customs, consumption tax, income tax from central enterprises, profit remittance of central enterprises and so on so forth (For detail, see Zhang, 1999: 132). Eighteen taxes come under the local revenue category. Among those are business tax, income tax from local enterprises, individual income tax, urban land use tax, land value-gains tax and so on. The share taxes which are the most important in terms of size of revenue include VAT, resource tax and securities trading stamp tax. Although there are some problems in implementation, particularly the remaining ambiguous division of expenditure responsibilities between the centre and localities since its introduction, the TSS system has been a great step towards institutionalisation of link between revenue and expenditure, and between power and responsibility, which laid the foundation for further market-oriented reform.

6.6.2 The new central-local relationship

The fiscal reforms, together with the decentralisation of property rights and other

administrative decentralisation policies such as approval of capital construction projects and foreign joint ventures, retention of foreign exchange earnings and the like, have had a profound impact on China's central-local relationship. Since the reforms, local governments have been given more autonomy, among which two institutional changes are particularly important for local governments in counterbalancing the centre (Xia, 2000). First, local governments now enjoy property rights, and are also "principals", just as the centre is in relation to the state-owned enterprises. The centre no longer can treat the local governments as agents as is the case with the central government ministries and state-owned enterprises. Second, the Provincial Peoples' Congress now has some legislative autonomy. Because the provinces have been allowed to initiate legislation according to their own needs, the provinces are able to define the rules of their own games, providing they are not challenging the equilibrium of the whole system.

However, the strengthening position of local governments does not mean that the central government has lost control over local governments. Instead, the centre has still the capacity to define the parameters of the central-local relationship. The centre controls the power of appointment and dismissal that determines the political careers of local leaders. It also has control over key economic resources. For example, it can provide funds to and implement favourable policies for a province. This can be a big boon to the local economy, as the Pudong case shows (see Chapter 8). Besides, the centre controls the military and the ideological and propaganda apparatus and relies on them to make the centre's threats creditable.

As a result, the two levels each possess some resources that are essential to central control and local autonomy, but neither the centre possesses enough to command nor the local governments possesses enough to take an independent path (Lieberthal and Oksenberg, 1988). Instead, both need the valuable resources that each provides. For the centre it is coercion; for the provinces, it is their intermediary role in the Chinese structure. Therefore, they form a mutual interdependence and are indispensable to each other. Interdependence characterizes the relationship with the balance generally in favour of the centre.

It is worth noting that the above analysis of the central-local relationship is theoretical. Due to China's vastness and the huge regional differentiation, it is almost impossible to provide a clear-cut framework accounting for the relationships between the centre and 31 provincial, and many local units. In the reality, some localities have received more favourable policies and privileges (like the SEZs), and some have not; in some provinces, the centre has taken more aggressive actions to try to boost local developmentalism through appointing competent and reform-minded leaders (such as Zhao Zhiyang to Sichuan, Jiang Zemin and Zhu Rongji to Shanghai), in other provinces, the centre took no action (cases in Zhejiang in the 1980s and Shaanxi) (Cheung, et al, 1998). There has been no universal pattern with regard to the localities-localities relationships in China.

6.6.3. Shanghai's shifting relationship with the Centre

The previous two chapters have shown the importance of Shanghai's relation to the national government in the development of Shanghai. The city's prosperity and well-being in the pre-1949 era thrived on a relative independence from the bureaucratic national government.

The communist victory in 1949 gave rise to a completely new central-local relationship where the local government was turned into little more than an agent of the central government. Shanghai, due to its importance in China's political economy, was gripped tightly by the central government and was turned from a financial and commercial centre into the biggest industrial city in China. The situation did not even change in the 1980s when the policy of decentralisation proceeded nationwide. Shanghai's experiences in China's fiscal reforms in 1980s shows the attitude of the central government towards Shanghai. In 1980, when the policy of "eating in separate kitchens" was introduced, Shanghai together with Beijing and Tianjin was left out. These three municipalities were required to adhere to the old fiscal arrangement with the Centre, which left them with little autonomy as well as with a small revenue base. Shanghai, in particular, was widely considered to be the most poorly treated under this fiscal arrangement because its share of total revenue was the lowest among the three municipalities: while Beijing and Tianjin were allowed to

keep about 30% of their revenue for local spending, Shanghai was only able to retain a little over 10% of its revenue (Lam, 1996).

The Centre's tight control of Shanghai and Shanghai's rearguard position in China's strategy of reform in 1980s had affected the city's economic and social development (White, L. 1989). Many view the Centre's "exploitation" of Shanghai as one of important factors that resulted in Shanghai's rather modest growth in 1980s when southern China, particularly Guangdong, surged ahead in economic development. It has been noted there were extensive discontent and complaints with the Centre's treatment of Shanghai among ordinary people and even among the cadres in Shanghai (Lam, 1996). This led to the rise of local interests articulation in Shanghai in the 1980s – a phenomenon emerged in the first time since the Communist took power in 1949.

Under the communist regime, both party cadres and the governmental officials were under the strict control of the Party (*Dangguang Ganbu*). Local political leaders, appointed directly by the Centre through party system, were not so much leaders of local government who were accountable to the local people, as the agent of the centre whose major concerns were how to accomplish the assignments given by the centre. Shanghai's eminent position in China's political economy meant its leaders were more likely to be promoted to the centre than other local leaders. This prestigious position of Shanghai's leaders was, however, accompanied by policies and measures that worked to the city's disadvantage. When there were conflicts between personal political careers and the local interests, the latter was destined to fall into the victim of the struggle. Lucian Pye (1981, xi-xvi) notes,

Shanghai's political leaders have consistently failed to assert the special economic and cultural interests of their city. Indeed, quite to the contrary, they have over considerable periods advocated policies and programmes diametrically opposed to the interests and the welfare of the people they presumably represented.

Power devolution since reform gave localities more independent interests and local leaders became increasingly concerned with the local development and prosperity.

Local leaders' shifting role made them tolerant towards local interest articulation, which was regarded as localism and strictly suppressed under Maoism. The 1980s witnessed the growing recognition of local interests in Shanghai, and also their increasing legitimacy. By 1988, the notion of local interest had become so firmly established that a commentator for Liberation Daily (*Jiefang Ribao*, one of Municipal Party Committee newspapers) urged Shanghai to press the Centre to give it more autonomy. He pointed out that Shanghai was not treated favourably because it had not fought fiercely enough with the Centre for its own interests (*Jiefang Ribao*, 30 May 1988, p. 2).

Concerned with Shanghai's declining position in China's economy, local leaders themselves were lobbying extensively to get the Centre's support for the revitalisation of Shanghai. These efforts made some progress in changing the Central policy towards Shanghai. By 1984, Shanghai's retention of local revenue had gradually increased to 23.5% from only 11% in 1980. From 1988 to 1993, a new fiscal arrangement allowed Shanghai to keep all the local revenue after remitting a fixed sum to the central government, thus giving Shanghai more breathing space to develop her economy (Ho and Tsui, 1996). Meanwhile, the establishment of three economic zones – Hongqiao Economic and Technological Development Zone (ETDZ), Minhang ETDZ and Caohejing High-tech Park – was finally approved in 1986, seven years after the SEZs in Guangdong and Fujian were approved by the central government.

Despite the successive efforts made by local leaders in 1980s, Shanghai's reinvigoration did not come until 1990 when the central government made another strategic move in furthering China's reform. As a huge country with enormous geographical diversities, China is constantly looking for useful local experience that can serve as a developmental model for the whole nation. Similar to the opening of Guangdong and Fujian in 1979, Deng Xiaoping attempted to use Shanghai to stimulate China's economic reform and, at the same time, to establish another success story to boost his stature and to strengthen his own political power in the aftermath of the 1989 political crisis. During his spring festival visit to Shanghai in February 1990, Deng made several speeches wanting to speed up the development of Shanghai. Soon afterwards, Shanghai received a package of special policies from the

Centre for the development of Pudong – the area to the east of Shanghai’s city proper. At the 14th Party Congress held in October 1992, Shanghai was given an official mission to develop as a “dragon head and three centres” to lead the Yangzi River Basin and China at large into the twenty-first century (Yeung, 1996). The three centres refer to Shanghai as an economic centre, a financial centre and a trading centre. Shanghai thus became the national focus of economic reform and development.

The ups and downs of Shanghai’s economic development in the past two decades show that in today’s China the political decision by the Centre is still the decisive factor for a city’s future. In 1980s, Shanghai was strategically given the position of rearguard in the Chinese reform, while southern China, the national focus of the Chinese reform and open door policies, acted as the forefront player. While the efforts by Shanghai’s leadership in 1980s were fairly successful in reinvigorating the city within the existing policy constraints and catching the attention of the Centre, these new ideas and policy adjustments did not lead to a large-scale effort to build up Shanghai as China’s leading economic centre until 1990. Since 1990, there has been a convergence of interests between Shanghai and the Centre. This led to a relatively harmonious central-Shanghai relationship in 1990s, in contrast with the troublesome relationship between Shanghai and the Centre in 1980s.

6.6.4 A socialist pro-growth coalition in Shanghai

Apart from the changes in the central-local relationship, the reform has also brought in a new behaviour pattern to the provincial municipal government. Before the reform, the local leaders were somewhat like directors of workshops who had little power over revenue and spending. Indifferent to local development, their major concern was how to fulfil the production plan assigned by the central planning commission. Reform policies such as the fiscal reforms gave them a great incentive to develop their local economies and the wherewithal to do it. They were eager to expand the local economy because it earned them more tax revenues, which had at the same time become increasingly important for their political credibility since the economic development was the most important and visible standard whereby their leadership capabilities were assessed. As a result, a new behaviour pattern of local

government has emerged. Local government's behaviour has become increasingly entrepreneurial, and the local leaders act like the bosses of their own firms. Oi (1995: 1132) has such an observation on this peculiar behaviour of the post-reform Chinese local governments:

Local officials act as the equivalent of a board of directors and sometimes more directly as the chief executive officers. As the helm of this corporate-like organisation is the communist party secretary.

This new behaviour pattern has been called “local state corporatism” (Oi, 1992, see also Walder, 1995). With the shrinking of public sector, this local state corporatism has sought to build the partnership with the growing non-public sector, particularly the foreign-funded enterprises, in order to stimulate economic growth. As a result, a pro-growth coalition has emerged. While this pro-growth coalition bears similarities to the one in the United States in many aspects, the difference between these two coalitions are significant due to different political economic systems.

For local governments, there are two ultimate goals in building pro-growth coalitions: to enhance political legitimacy and to stimulate economic growth. These two goals implicate two dimensions of coalition building: the political dimension and the economic dimension (Zhang, 2002). In liberal democratic societies, political legitimacy is achieved through public election and shown in public power. Business communities are well organised in liberal democratic countries, and more often than not, they are the most influential interest groups in shaping the local political contour because of their role as the resource controllers. It is politically necessary for local politicians to build coalitions with business groups in order to win public elections. More strong imperatives for coalition building lie in the economic dimension. In liberal democratic societies, economic growth relies fundamentally in private sector because it is the private sector that controls economic resources. The private resource ownership means that local governments have to build coalitions with business groups (the resource controllers) for economic growth. As economic performance has been always the key factor in elections, the economic growth will in turn enhance local government's political legitimacy. Therefore, in liberal democratic societies, the economic dimension of coalition building is closely intertwined with the political

dimension of coalition building, and together, they force local governments to seek partnership with the private sector.

While two dimensions of coalition building cannot be separated in liberal democratic societies, they are separable in a transitional socialist society such as China. This is mainly due to the fact that China's reform is gradual and asymmetrical. With its socialist political institutions unchanged, public election is not the way to give legitimacy to the government. Chinese officials, from the president to mayors, are not elected but rather are assigned through a complicated political system that is controlled by the Communist Party. In Shanghai, for example, although the municipal government is nominally accountable to the local assembly, the Shanghai Party Committee is still the top decision-maker. While the mayor who is nominated by the Centre and elected by the local assembly is usually the vice-Secretary in the party committee, the Secretary who is appointed by the Central Committee of the Communist Party and usually a member of the Political Bureau which is the paramount decision-maker in China is the *de facto* boss.

Despite the decentralisation, the Chinese political system is still highly centralised, and showing loyalty to higher level government is crucial for promotion. The central government judges the performance of local officials based on two criteria: political conformity to the central government and achievements in local economic development. The party-controlled appointment and promotion system means that showing political loyalty always gets high priority in local officials' decision making. It has been observed that key local officials such as the party secretary and mayors should be seen more as central agents rather than as local representatives (Lam, 1996). It is particularly so for political leaders of Shanghai – the largest city and the economic centre of China. This explains why the city had to submit 87% of its local revenue to the central government for 40 years.

Apart from the political system, the so-called “approval economy”, the legacy of the centrally planned economy, remains pervasive in China. Despite the administrative decentralisation, there is still a threshold control. Any over-threshold matter has to be approved by the ministry concerned in the central government. For example, any FDI venture whose total investment surpasses USD 30 millions has to be submitted to the

State Council for their final approval. Under this administrative system, some critical urban redevelopment projects such as the development of Pudong would have been impossible without the endorsement of the central government.

Since the reforms, the central government has significantly reduced its direct involvement in local redevelopment projects. However, through the unchanged political system, the central government still holds critical power, and as such, indirectly controls local development issues. China's unchanged political system also means that the political dimension of pro-growth coalition building is weak in Chinese cities, because local leaders' jobs come from superior officials rather than from local elections, which contrasts to the practice in U.S. cities.

While the political dimension of coalition building is weak, the economic dimension of coalition building has got strengthened in Chinese cities since the reforms. The reforms have been changing the relationship of the municipal government and non-public sectors. Although public ownership is still the main form in China's economy, the non-public sectors have been growing rapidly. Take Shanghai's industry for example. Measured by percentage of total gross output value of industry in Shanghai, the share of SOEs dropped from 89.6% in 1980 to 30.1% in 1997, while the share of non-public enterprises increased from 1.1% to 51.9% (SYS, various years). Of all forms of ownership, the foreign-funded enterprises have grown most rapidly. By 1997, it had been the biggest part of Shanghai's industry with its share of total gross output value reaching 38.9%, comparing with SOEs' 30.1%. It is clear that the public sector no longer dominates production in Shanghai. The municipal government has to seek partners from non-public sectors in making development decisions. As international capital has become a key player in Shanghai's economic development, the SMG has to accept game rules exercising in international society. Local policies – from tax incentives, land provision, and a public-funded infrastructure service to the advocating of “to do things in accordance with international rules” – all reveal local government's efforts to recruit foreign investors into the pro-growth coalition.

The leadership of the pro-growth coalition is a complicated issue. From the economic dimension, in both Chinese and U.S. cities, the leadership of the coalition depends largely on the extent to which the leading party controls production resources. In the

U.S., the private sector often takes leadership in the pro-growth coalition because of predominant private ownership in production. In China, despite marketisation and privatisation for over twenty years, public ownership is still a major form of ownership, and the public sector controls some key development resources such as land and financial institutions. Therefore, despite the growing challenge from the non-public sector, the public sector still takes leadership in the pro-growth coalition in Chinese cities.

However, leadership is more than just an economic issue. Public sector's leadership in the coalition is politically unchallengable due to the politics monopolisation by the Communist Party in China. The Chinese authoritarian system not only ensures public sector's leadership in the pro-growth coalition, but also makes the pro-growth coalition extraordinary strong comparing with that in U.S. cities.

In liberal democratic societies, apart from governments (federal and local) and the private sector (business interests groups), community power such as community organisations and social movements is also a player in urban development. Comparing with governments and private sector, community power is the weakest player due to the lack of control over resources. But the public election gives it a political leverage whereby it could affect voters' choice, and as such, indirectly gain its influences in the decision-making of urban development. In urban redevelopment, various groups such as environmentalist organisations, racial movement organisations and community organisations against displacement contribute to prevent the "growth machine" from going too fast, although they are often unsuccessful.

While the weakness of community power in U.S. lies in the economic dimension of coalition building, a weak community power in China results from community groups' loss of election power in urban politics. With no election power to leverage government officials, community groups have never been members of the coalition. In fact, social organisations dependent from the Communist Party are barely allowed. Party politics is virtually absent in Chinese society, and civic society is still in an inchoate state. As a result, China's asymmetrical reform has given rise to a situation where the vast majority of the populace is united by the goal of growth, and where

there is virtually no opposition voice. Without opposing forces, the power of this pro-growth coalition composed of the local government and international investors is overwhelming. It is this interest coalition, to be discussed in detail in the chapter 7 and 8, that has been transforming Shanghai's urban patterns rapidly and relentlessly.

6.7 The impact of reform on the mechanism of urban development

As discussed in Chapter 5, urban development in the pre-reform era was a by-product of national industrialisation based on the central planning system. The reform changed the overall socio-economic and political environment within which urban development takes place. This overall change has had a profound impact on the mechanism of urban development, which can be understood from three interrelated aspects: 1) investment source; 2) development organisation; and 3) urban planning system (Wu, 1998: 262).

6.7.1 Diversification of investment sources

In China's statistical system, the indicator that can be used to show the sources of finance for urban development is the total investment in fixed assets, which refers to the volume of activities in construction and purchases of fixed assets in monetary terms (SSB, 1998). According to the National Statistical Bureau (1998), investment in fixed assets is classified by channel of management as investment in capital construction, investment in innovation, investment in real estate development and other investment in fixed assets, and by source of funds as state budgetary appropriation, domestic loans, foreign investment, self-raised funds and others.

As a result of decentralisation, the state budgetary appropriation has dropped rapidly in China as a whole. While the state budgetary appropriation accounted for 28.1 percent of the total investment in fixed assets in 1981, it accounted for only 2.8 percent in 1997. On the contrary, self-raised funds (SRF) and foreign investment have increased their proportions drastically. In 1997, their share of the total reached 55.7 percent and 10.6 percent respectively (SSB, 1998).

The changes in investment structure in Shanghai represent a typical case. Since 1978, SRF as well as foreign investment has increased dramatically. In 1997, SRF and foreign investment accounted for 46.1 percent and 15.8 percent of the total investment in fixed assets respectively, while the share of the state investment was only 1.4 percent (SSB, 1998).

The dramatic increase of SRF and foreign investment is of course more than just investment diversification. It reflects a profound transformation in China's political economy – from sectoral dominance to localisation as discussed earlier. SRF refers to “funds received by construction enterprises from their responsible institutes, local governments, and within enterprises of the purpose of investment in fixed assets” (SSB, 1996: 197). The significance of SRF lies in not only its sheer size, but more importantly, its use. As indicated, SRF is collected and used outside the control of conventional economic planning. The fund-raisers – usually local governments and enterprises – can decide the use of the funds without the approval of the Central Planning Commission (CPC) (Wu, 1998). Thus, the rapid rise of SRF means the shrinkage of the “plan track” economy and the rise of local government as the key player in urban development.

Nowadays, municipalities are not only keen to collect the SRF, but more willing to use them for the provision of urban infrastructure and public services (Yeh and Wu, 1996; Wu, 1998). Before the reform, although the municipality was responsible for the urban infrastructure, it was reluctant to invest in these “non-productive” items. Given the fact that central enterprises were directly controlled by central ministries, the municipality tended to spend its limited revenue in local enterprises from which it drew its own income rather than the urban infrastructure that were shared by both central and local enterprises. The fiscal reform and particularly the introduction of TSS broke the vertical fiscal linkage between supervisory departments and subordinate enterprises. It is now in the city government's own interest to provide good urban infrastructure and amenities, which have become an important factor in attracting external investment on which the development of the local economy increasingly relies.

6.7.2 Reorganisation of urban land development

In socialist China, all production materials including land were owned by the state and the CPC managed the allocation of resources in the name of the state. Under this system, land was administratively allocated to work units when their projects were approved by the CPC. Because urban land was administratively allocated without payment, tax, or rent, state work units tended to occupy as much land as possible. This syndrome of thirst for land led to a prevailing shortage within the land use system as well as the inefficiency of land use (Tang, 1994).

Attempting to tackle these problems, immediately after 1978 the central government introduced the “comprehensive development” that was organised by the city government (Yeh and Wu, 1996). Instead of individually acquiring land and separately constructing facilities, the city government acquired large tracts of land and constructed urban infrastructure, factories and service facilities comprehensively. Since the developments took place comprehensively, better efficiency could be achieved. Enterprises that intended a new project were encouraged to propose their plans to the city government as well as the CPC. City governments could then turn the plans into comprehensive development programmes. By this arrangement, the city government would be more in control of its own land development. However, comprehensive development was not market-oriented although the property of housing and service facilities was sold at development cost to work units which had signed contracts with the city government. It was a kind of development bounded by the contract between the work units and the city government, which had no flexibility in response to the market.

The market-oriented reforms of the whole political economy in 1980s called for the setting up of land market whereby a highly efficient land use system can be eventually achieved. In order to avoid head-on collision with the sensitive state-ownership of land, which is written into the Constitution of the PRC, the government invented a pragmatic solution -- the separation of the land use right from the ownership of land *per se*. While the state remain the owner of land, use rights of land can be sold, assigned and transferred. The paid transfer of land use rights was made official by the Seventh People’s Congress in 1988. It was stipulated that the state –

in practice, the municipality – should monopolise the lease of urban land, which means that all the land including administratively allocated land must first be acquired by municipalities before their use rights can be transferred (State Land Administration Bureau, 1991; Wu, 1998).

The pragmatic land leasing system therefore effectively created a *de facto* land market system composed of a primary and a secondary land market. The primary land market refers to the transfer of land use rights from the state to the user through land leasing. This is known as “conveyance” (*churang*) in China, which is monopolised by the state. The secondary market refers to the transfer of land use rights among users through land transactions (*zhuanrang*) (Yeh and Wu, 1996: 337). It is the secondary market that conveys the real meaning of the market, operating as the equivalent of a land market in the west.

The establishment of the *de facto* land market has had profound effects on the production of the built environment (Wu, 1998). First, there has been a significant shift in the land development mechanism from a centrally-plan-based, vertically-controlled system into a market-oriented, horizontally-controlled one. Since city governments were empowered as the *de facto* managers of state land, they can decide the amount and location of land leasing. Enterprises are now required to propose their projects to the municipality for urban planning permits before projects can be submitted to the CPC. The municipal government that used to be “hollowed out” by various central ministries can exert more influence on urban form than ever before.

Secondly, the land leasing system has uncovered the hidden price of land and led to the restructuring of urban land use pattern (Wu, 1997). In the pre-reform era, although land was regarded as a non-productive factor that was administratively allocated, the value of land could not disappear. If we regard the ground rent as “a reduction from the surplus value created on the side” (Smith, 1996: 62), then it is also present in state socialist societies although it is intangible. For example, it is well known that a shop in a central location can sell more goods than one in a less favourable place. The existence of the rent can be illustrated by the very fact that the output of shops differs due to the different location. However, shops are indifferent to the rent under the state socialist system in which the state appropriates all the rent.

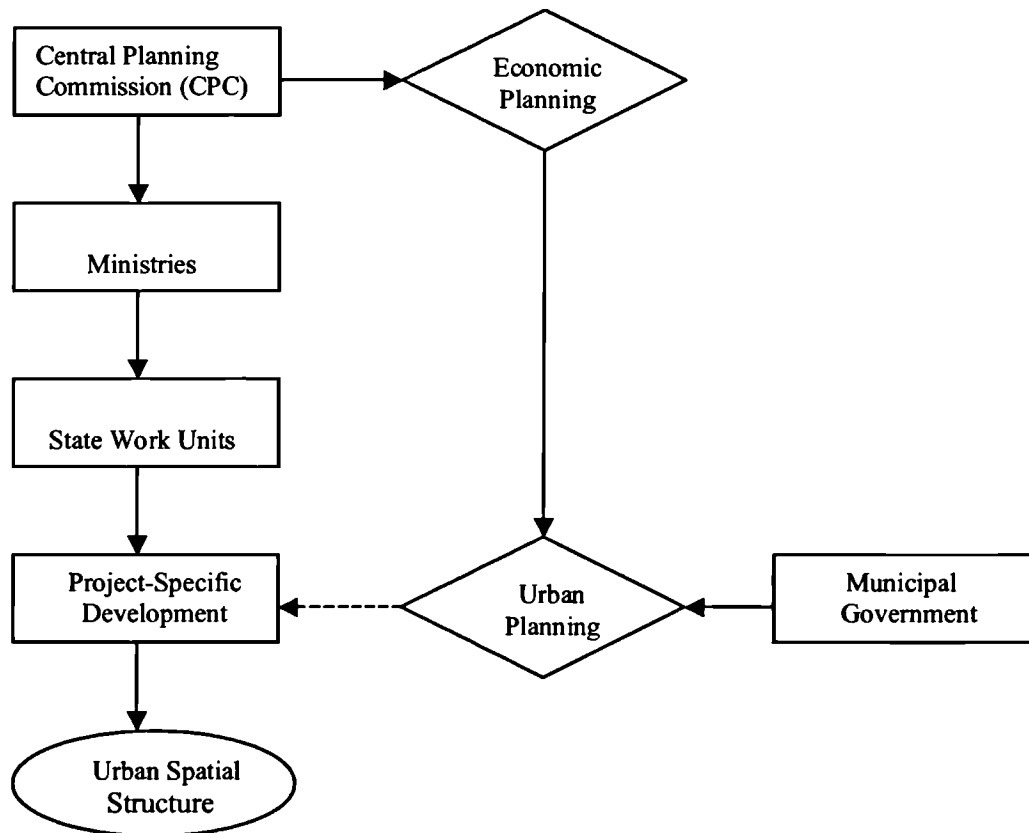
Rent only matters when shops' own interests are made related to their output by introduction of a new reward system such as a "responsibility contract" in which shops have been allowed to retain a certain proportion of this profits (Yeh and Wu, 1996; Wu, 1997). But because of the absence of the land market, this rent had been hidden in the prices of other commodities associated with the land – for example, the cost of renting a counter in a state-run department store. Renting a counter in inner city area cost more than in peripheral area. This hidden rent was capitalised by the establishment of the land leasing system, because the differential rents have since been marked in monetary form in the *de facto* land market. A land rent gradient has thus emerged in Chinese cities, which is similar to western cities with land rent declining from the city centre.

With the rise of land rent gradient, inefficient urban land use patterns such as the occupation of factories in the city centre became unsustainable. In the past, without a market price to refer to, bargaining in land transactions was extremely prolonged and daunting. The complicated *de facto* occupation made relocation-involved redevelopment in the inner city almost impossible (Yeh and Wu, 1996). An emerging land market enables redevelopment projects to take place on a large scale in the central city. Factories that were crammed in the central city can be relocated to the suburbs where large tracts of land are available and where land is cheaper by selling their land at high prices in the market. This is exactly what happened in Chinese cities in early 1990s. Parcel after parcel of land occupied by old housing and industries in the city proper have been changed to commercial and residential use. As it will be discussed in the next chapter, a central business district, office building complexes and luxurious residential areas, which were absent in the past, are now flourishing in Shanghai.

The land leasing system also enables city governments to invest in urban infrastructure and amenities. In the past, with a very limited budget in hand, the municipality did not have enough funds to improve the urban infrastructure even if it wanted to do so. The city government now can afford to retrieve land and then lease it to the land user who can pay the highest price in the land market. The land leasing system has provided the city government with a new and substantial revenue source which was not available in the past when land was allocated free of charge. Indeed,

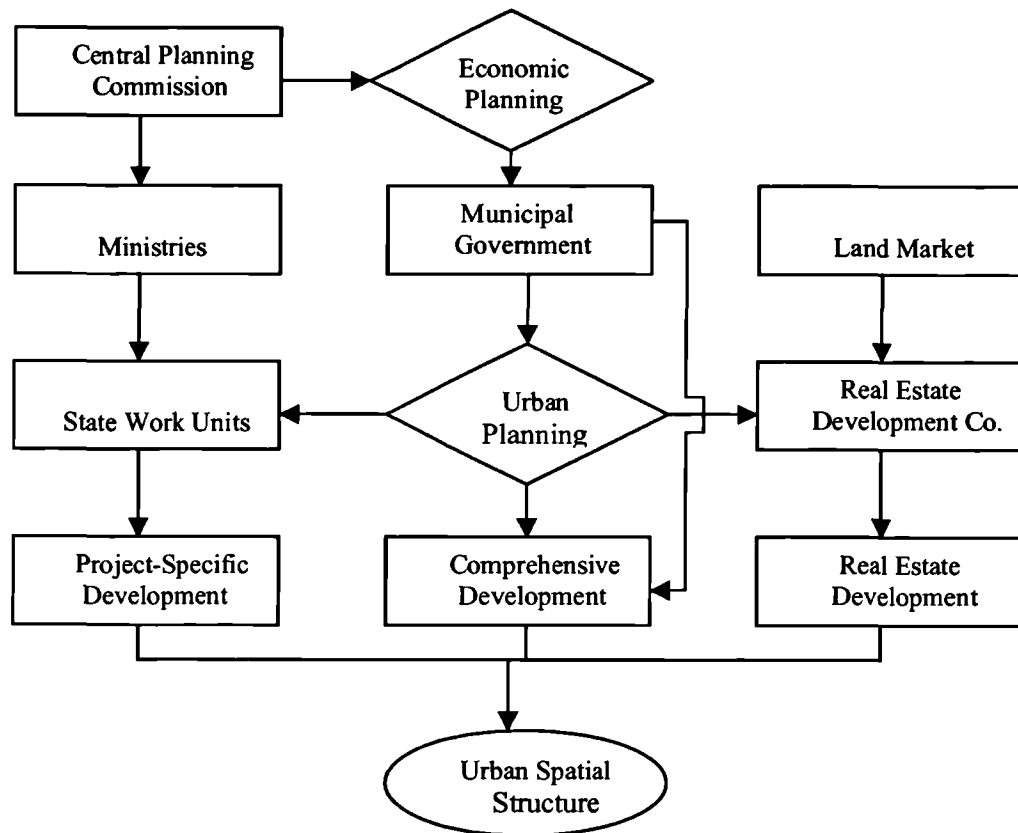
income from land leasing has become one of major resources in city government's annual revenue. In 1993, some US\$ 1.8 billion was raised in Shanghai from the leasing of land and the money was spent on improving urban infrastructure as well as compensating residents (Chan, 1996). The massive infrastructure projects that carried out in Shanghai in recent years, such as the underground railway, the elevated highway system, and the new tunnel and cross-river bridges, would have been impossible without the funding from land leasing.

Figure 6.1 Urban Development Process in the Centrally-Planned Economy of China Before Economic Reform in 1978



Source: adapted from Yeh and Wu (1999: 380)

Figure 6.2 Urban Development Process in the Transitional Economy of China After Economic Reform in 1978



Source: adapted from Yeh and Wu (1999: 381)

Thirdly, land reform has created a peculiar dual track system in which administratively allocated process coexist with the land leasing method. The administrative mechanism is still the dominant way of acquiring urban land, particularly for the public sector and SOEs. However, the amount of land acquired through the market mechanism of negotiation, tender and auction has increased rapidly. In the case of Shanghai, since the first land leasing in 1988, a total of 4,581 pieces of land with an aggregate area of some 145 square km had been leased by the end of 1998 (Shanghai Real Estate Market '1999). Given the fact that the central city covers about 300 square km (municipal Shanghai covers about 6,340 square km) and the leased lands tend to be located in the city centre, a high proportion of land in Shanghai has been put onto the market. Ten years on, the overall picture of this dual track land reform is quite peculiar: three types of land development, i.e., project-

specific, comprehensive and market-based real estate development, coexist currently in urban China. Figure 6.1 and 6.2 show the transition of urban development process since 1978.

6.7.3 The new role of urban planning

Prior to the reform, urban planning was subordinate to the top-down economic planning. Nominally, its function was to translate economic development goals into a physical blueprint. In practice, it played the role of servant to national industrialisation. Urban planning, and the municipal government whose interests it represented, had little discretion in shaping the urban form and planning the future development. Wu (1998: 270) has a good description of the relationship between economic planning and urban planning in socialist China:

...development goals were created from economic planning; resource allocation was bargained and set through the economic planning system; conflicts in interests were mediated through a process of 'comprehensive balancing' in economic rather than urban planning; development control was based on 'project registration' rather than planning permits.

This subservient status of urban planning resulted from the centralised and sectoral-based organisation of urban development. The reform policy has transformed China's political economy and subsequently the dynamic of urban development, which resulted in the fundamental changes in terms of urban planning system versus economic planning. Alongside with the reform progress, the status of urban planning was gradually strengthened by a series of government policies and legislative measures from 1978 on. In 1980, the State Council promulgated the Provisional Regulation for the Preparation of Urban Plans, which stressed that municipalities were responsible for preparing urban plans. In 1984, the Regulation of Urban Planning was announced and in 1989 the regulation became the Urban Planning Act (UPA) (Wu, 1998)

The enactment of UPA is a milestone in China's development of urban planning system. It rules that all development projects including state ones within a city planning area must first submit their proposals to the city government for

consideration. Obtaining “a site selection permission” issued by the municipality is now a pre-condition for projects to be registered in the CPC (Wu, 1998). The UPA also set up a development control system, which allows the municipality to enforce urban plans directly on urban land – all construction projects must apply for a land-use planning permit and a building permit from the municipal planning authority. The change of sequence and the establishment of the planning control system symbolise the fundamental change of urban planning from a collateral to economic planning into a market-oriented urban physical control apparatus.

Again, however, the new urban planning system is tinged with Chinese characteristics. While the municipality has now real power in the urban planning process, two major problems of urban planning in the centrally planned economy – administrative discretion and insufficient public involvement – remain (Wu, 1998). The Chinese planning authority has similar power to its western counterpart, but it bears much less constraints than the latter. As a result, the municipality is more willing to revise their master plans and do so with less resistance. Very often, municipalities lower their planning standards to cater for international capital for which all cities compete. In the extraordinary strong growth machine politics, urban planning, unleashed from the grip of economic planning system, has been turned into a municipally controlled “local-growth-oriented device” which often finds itself becoming a bargaining counter in the negotiation table (Wu, 1998: 271).

6.7.4 The impact of international capital on the mechanism of urban development

Since China opened its door to the world capitalism, foreign capital has played an increasingly important role in transforming the dynamic of Shanghai’s urban development. Foreign investment has become one of the major sources in fixed assets investment in Shanghai. In 1997, foreign investment accounted for 15.8% of the total investment in fixed assets (SSB, 1998). Unlike SRF, which is a form of internal capital which is more or less subject to the government control, foreign investment represents a kind of external resource which is internationally rootless and which runs completely beyond the reach of Chinese government. This external capital, which acts completely in accordance with the rule of the market, posed a

huge challenge to the old method of urban development which was geared to the centrally planned economy. This challenge compelled and sometime forced the government to adopt a more market-oriented approach to urban development.

Take capital construction procedure for example. Capital construction procedure refers to “the work procedure that a capital construction project must adhere to from the planning stage to project completion” (cited in Wu, 1998: 266). This procedure was of course designed to gear with the project-specific method. However, it was disregarded in the case of foreign investment. Not uncommonly, planned international investment was largely unknown to the planning authority until a very late stage in the process, because foreign investors tended to negotiate directly with senior officials in the government during such occasions as visits and conventions. This case-by-case approach, on the one hand, put the planning authority into a rather passive position. On the other hand, foreign investors complained about the prolonged bureaucratic procedures. In order to institutionalise foreign investment procedures, the SMG set up a brand new department – Shanghai Foreign Investment Commission (SFIC) in 1987. It was claimed that the SFIC would deal with the foreign investment “in accordance with the international rule” (*anzhao guojiguanli banshi*) – a popular government slogan in 1990s. The SMG hoped that the establishment of SFIC would, by quickening the bureaucratic procedure, improve Shanghai’s soft investment environment which had become an important factor in attracting international capital.

External investment also had an important influence in the adoption of the land leasing system. Far earlier before the establishment of urban land market, foreign investors had been charged for the land use. The Sino-Foreign Joint Venture Law enacted in 1979 stipulated that foreign funded enterprises should pay land use fees. With the significant increase of foreign investment, the Chinese government was under mounting pressure to treat foreign investors as the same as the domestic ones by introducing a non-biased land market system. This kind of pressure was certainly not confined to one area. Indeed, apart from driving the overall behaviour of Chinese local state towards entrepreneurialism, international capital has made a great contribution in transforming China’s urban development mechanism. The transition, as argued in this thesis, is not solely internally-induced, nor is it solely externally-

driven. It is the combination of internal and external factors that underlies the new dynamics of urban development.

This chapter has shown that the situation where the state alone was responsible for Shanghai's urban development has been changed by the reforms introduced by the Chinese government in the late 1978. The state has retreated from economic domain, and thus, we have seen the emergence of a new state-economic relation. The central state has slackened its grips on the local state, and so, we have seen the rise of local state corporatism. With the retreat of the state, capital has re-emerged in the state-capital relationship and played an increasingly important role in shaping Shanghai's urban patterns. It is the increasingly important role of capital in Shanghai's urban development that I turn to in the next chapter.

Chapter 7

INTERNATIONAL CAPITAL AND URBAN RESTRUCTURING IN POST-REFORM SHANGHAI

7.1 Introduction

This chapter examines Shanghai's dramatic urban restructuring since 1978. It starts with an analysis of Shanghai's changing mode of integration with the world economy in terms of trade, labour and capital. The increasingly importance of the inflow of FDI is scrutinised by focusing on investment of the Fortune-listed World Largest Corporations in Shanghai. This fundamental shift in its mode of integration with the world economy has had a profound impact on Shanghai's urban restructuring. With the shrinking of the role of the state, the chapter shows that Shanghai's urban restructuring has been increasingly fuelled by international capital in economic, spatial and social terms. The chapter is concluded by depicting a new state-capital relationship that has been underlying Shanghai's urban restructuring in the post-reform era.

7.2 Shanghai's economic development since 1978: links with the world economy

7.2.1 GDP growth

Shanghai's economic development after 1978 can be divided into two periods with the launch of development of Pudong in 1990 being a watershed. The first period 1979-1990, over 12 years, was one when economic growth raced ahead in Guangdong and other southern areas and Shanghai acted merely as a "rearguard" in economic reform. Shanghai's dominant position as China's industry, trade and commercial centre was fading and its manufactured products, which used to be the

symbol of good quality were losing ground in the domestic market. Annual economic growth averaged 7.5%, which was below the domestic market (Yeung, 1996). This was followed by the present period of rapid growth after Pudong was launched in 1990 as a growth platform for Shanghai, with average double-digit annual growth (see Table 7.1).

Table 7.1 State Policy, FDI and Shanghai's Economic Development

	Growth rate of GDP (%)	Contractual FDI (USD 10 ⁸)	Relevant state policy
1978	12.1		reform policy initiated
1979	7.4		
1980	8.4		
1981	5.6		
1982	7.2		
1983	7.8		Shanghai designated one of 14 open cities. The central government opened three of China's most important deltas.
1984	11.6		
1985	13.4	7.1	
1986	4.4	3.0	
1987	7.5	2.5	
1988	10.1	3.3	The development of Pudong launched by the central government.
1989	3.0	3.6	
1990	3.5	3.8	
1991	7.1	4.5	
1992	14.8	33.6	
1993	14.9	70.2	Shanghai designated as "dragon head and three centres" at the 14th Party Congress
1994	14.3	100.3	
1995	14.1	105.4	
1996	13.0	110.7	

Source: Statistic Yearbook of Shanghai (SYS) (various years)

Shanghai's economy did not fare very well in the first period, mainly because of its rearguard position in China's overall development strategy. As mentioned in Chapter 6, Deng Xiaoping and his allies adopted a "piece-meal" approach to the reform and open-door policy. This "piece-meal" approach also had a spatial connotation. In order to confine the "risk" of reform, reformers set up four Special Economic Zones (SEZs) in Fujian and Guangdong, which is adjacent to Hong Kong and Macao, and in which a series of policies towards marketisation and decentralisation were

pioneered. Given the fact that Shanghai's revenue was one-sixth of the national total, and that one-third of the central government expenditures came from Shanghai in the late 1970s (Yeung, 1996). Shanghai was too important to be a pilot area and was given a rearguard role throughout the 1980s. As indicated in Chapter 6, while Guangdong was granted a generous plan in the revenue-sharing fiscal reform introduced in 1980, Shanghai was required to remit 88.8% of its total revenue to the central government.

With the tight grip of the central government, Shanghai's economic performance was lacklustre and lacked vitality. While Shanghai experienced a moderate economic growth, Guangdong quickly outpaced Shanghai in economic term. As a result, Shanghai's share of China's GDP declined continuously from 7.5% in 1978 to a record low of 4.1% in 1990, while Guangdong's share increased from 5.1% to 7.9% (see Table 7.2 and Figure 7.1). The same tendency can be found with Shanghai's industrial output, which fell from 12.1% of China's total in 1978 to 6.9% in 1990, and value-added of the tertiary sector, which dropped from 5.9% to 4.2%.

This trend only stopped when the central government chose Shanghai as the launchpad for the new round of reform policy. Symbolised by the Pudong project, Shanghai became the symbol and focus of China's reform in the 1990s as had Guangdong in the 1980s. Since then, Shanghai's economic growth has dramatically quickened, registering double-digit annual growth for 7 consecutive years (1992-1998). Consequently, Shanghai's share of China's GDP rebounded from 4.1% in 1990 to 4.6% in 1998, and its share of value-added of the tertiary sector increased to 6.8%. By 1998, Shanghai's GDP had reached RMB 368.8 billion with per capita GDP of RMB 28,240, a stark contrast with 1978 when GDP was RMB 27.3 billion and per capita GDP was RMB 2,498 (SSB, 1999).

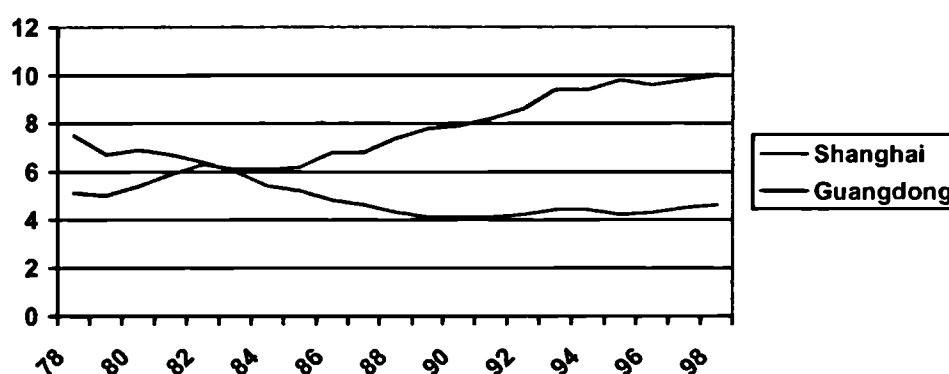
Alongside the astonishing quantitative expansion of the economy, Shanghai's mode of integration with the world economy has been fundamentally changed. Integration with the world economy refers to the specific forms, intensity, and duration of the relations that link the urban economy into the global system of markets for capital, labour and commodities (Friedmann, 1986). As Friedmann argues that the character of the urbanising processes depends, to a considerable extent, on the mode of city's

Table 7.2 Share of Shanghai and Guangdong in China's GDP, Industrial Output and Value-added of the Tertiary Sector, 1978-1998

year	Share of Shanghai in China's			Share of Guangdong in China's		
	GDP	Industrial output	Value-added of the tertiary sector	GDP	Industrial output	Value-added of the tertiary sector
1978	7.5	12.1	5.9	5.1	4.7	5.1
1979	6.7	11.9	6.2	5.0	4.6	5.8
1980	6.9	11.6	6.8	5.4	4.3	6.4
1981	6.7	11.5	6.7	5.9	5.0	6.8
1982	6.4	10.9	6.5	6.3	5.1	7.0
1983	6.0	10.3	6.3	6.1	5.1	6.5
1984	5.4	9.6	5.6	6.1	5.3	6.4
1985	5.2	8.9	4.8	6.2	5.5	6.1
1986	4.8	8.5	4.6	6.8	6.4	7.3
1987	4.6	7.8	4.6	6.8	6.4	7.3
1988	4.3	7.2	4.2	7.4	7.2	7.7
1989	4.1	6.9	3.7	7.8	7.5	8.0
1990	4.1	6.9	4.2	7.9	8.0	8.6
1991	4.1	6.9	4.3	8.2	8.9	8.5
1992	4.2	6.6	4.4	8.6	9.4	8.5
1993	4.4	6.3	5.1	9.4	9.9	9.3
1994	4.4	5.5	5.5	9.4	9.4	9.8
1995	4.2	4.9	5.5	9.8	8.5	11.1
1996	4.3	4.7	6.1	9.6	8.3	11.3
1997	4.5	4.7	6.6	9.8	8.5	11.6
1998	4.6	4.8	6.8	10.0	9.0	11.2

Source: Sung (1996: 181); SYS, 1999; SYC, 1999; SYG, 1999.

Figure 7.1 Share of Shanghai and Guangdong in China's GDP: 1978-1998



integration into the world economy, it is imperative to see how Shanghai has become more integrated with the outside world before we can look into Shanghai's urban restructuring.

7.2.2 External trade

Prior to the reform, Shanghai was chosen to be China's major centre of international trade with export value via Shanghai customs accounting for 30% of the national total exports in 1978 (Tian 1996). With the introduction of China's market-oriented reform and the decentralisation of powers to export that came with it, Shanghai has lost its position as the national centre for foreign trade although its absolute value of imports and exports has increased considerably. This was mainly due to the sharp rise of Guangdong's share, which accounted for 46.8% of the national total in 1994 while Shanghai's share was only 15.3% (Sung, 1996: 190).

However, Shanghai is still the most important regional trade centre to articulate the Yangzi Delta with the world economy. This position has been strengthened since the opening up of Pudong in 1990. From Table 7.3, we can see that the value of imports and exports via Shanghai by non-local firms, which is equal to the difference between the value of imports and exports via Shanghai customs and the value of imports and exports conducted by the local firms, always outweighed the value conducted by local firms. The annual growth rate of such value has dramatically quickened since 1990, reaching 42.4% in 1995.

More importantly, due to the more rapid growth of foreign trade than GDP over the past two decades, Shanghai's inward-oriented economy which was entrenched under the state socialism has been changed towards a more outward-oriented one. As Table 7.4 shows, the ratio of exports to GDP, an indicator showing the extent to which an economy is dependent on the world market, has been rising since the reform, reaching a peak of 39.7% in 1994, then dropped slightly to 36.3% in 1997.

Table 7.3 Foreign Trade via and of Shanghai: 1985-1995 (unit: US\$ million)

Year	via Shanghai's customs	Shanghai's foreign trade	via Shanghai's customs - Shanghai's foreign trade	
			value	annual growth rate (%)
1985	14873	4991	9882	--
1986	16066	5066	11000	11.31
1987	15635	5961	9674	-12.05
1988	18654	7160	11474	18.61
1989	19437	7848	11589	1.00
1990	17289	7428	9861	-14.91
1991	20409	8044	12365	25.39
1992	25145	9756	15389	24.46
1993	30931	12732	18199	18.26
1994	36246	15819	20427	12.24
1995	48137	19057	29080	42.36
1996	52870	22263	30607	5.25
1997	58683	24764	33919	10.82

Sources: SYS, 1996, 1997, and 1998; Statistical Yearbook of Shanghai Foreign Economic Relations and Trade, 1996.

Table 7.4 Shanghai's GDP and Exports: 1981-1997

Year	GDP (RMB: billion)	Exports (US\$: billion)	Average exchange rate of US Dollar against RMB	Exports/GDP (%)
1981	32.48	3.81	1.71	20.1
1982	33.71	3.61	1.89	20.2
1983	35.18	3.65	1.98	20.5
1984	39.09	3.59	2.33	21.4
1985	46.68	3.36	2.94	21.2
1986	49.08	3.58	3.45	25.2
1987	54.55	4.16	3.72	28.4
1988	64.83	4.61	3.72	26.5
1989	69.65	5.03	3.77	27.2
1990	75.65	5.32	4.78	33.6
1991	89.38	5.74	5.32	34.2
1992	111.43	6.56	5.51	32.4
1993	151.16	7.38	5.76	28.2
1994	197.19	9.08	8.62	39.7
1995	246.26	11.58	8.35	39.3
1996	290.22	13.24	8.73	37.9
1997	336.02	14.72	8.29	36.3

Source: SYS, 1998; Statistic Yearbook of China (SYC hereafter), 1998.

Although Shanghai is still in general an inward-oriented economy compared with Guangdong whose ratio of exports to GDP reached 95.4% in 1994 (Sung 1996), Shanghai's economy depends on the world market much more than previously.

7.2.3 Foreign workers and visitors

Apart from the increasing integration with the world commodities markets, the international flow of labour has also been greatly intensified. Prior to the reform, it was very rare to see a foreign tourist on the street, let alone foreigners working in Shanghai. By November 1999, there were 15,000 foreigners and 6,000 people from Hong Kong, Macao and Taiwan working in Shanghai (Shanghai Window*, 25 Nov. 1999). Those foreigners come from all over the world with top 5 origins being Japan, USA, Korea, Singapore and Germany. They are employed in some 2,200 enterprises and organisations, most of them are working as senior managers, or chief representatives, chefs and bakers of western restaurants and foreign language teachers. Taking into account those living but not working in Shanghai, the figure is even higher. According to the Shanghai External Affairs Office, there were 38,000 foreigners who held a "temporary resident card" in 1999, up from about 10,000 in 1994 (Debenham Tie Leung, 2000)

With its colonial history and unique urban landscape, Shanghai has become a magnet for international tourism since 1978. Foreign visitors (excluding those from Hong Kong, Macao and Taiwan) increased drastically from 0.17 million in 1978 to about 1.3 million in 1997. As shown in Table 7.5, foreign visitors rose even faster in the 1990s than the 1980s. The number of foreign visitors doubled in the decade of the 1980s, whereas it almost tripled in seven years from 1990 to 1997.

Table 7.5 Number of Foreign Visitors in Shanghai in Selected Years

	1978	1980	1990	1995	1997
Number (10,000 person- times)	17.07	21.07	46.06	107.55	129.99

Source: SYS, 1998.

Another indication showing Shanghai's growing interdependence with the outside comes from its telecommunications which have been getting increasingly internationally-oriented. Over the past 20 years, international long distance calls increased seismically from just 29,700 in 1978 to 48.1 million in 1997 (see Table 7.6). The ratio of international long distance calls to domestic long distance calls,

* An official internet website which provides the collection of news.

which reflects the extent to which the city's telecommunication is internationalised, rose dramatically during the same period. The percentage was only 0.47% in 1978, reached a peak of 16.8% in 1989, and then dropped gradually to 8.8% in 1978. The decrease in the 1990s was due to the even faster increase of domestic long distance calls as the result of the spread of telephones for ordinary households.

Table 7.6 Comparison Between Domestic and International Long Call in Shanghai: 1978-1995

Year	Domestic long distance call (10 000)	International long distance call (10 000)	International long distance call / Domestic long distance call (%)
1978	637.30	2.97	0.47
1979	735.50	6.97	0.95
1980	323.15	9.95	3.08
1981	365.14	11.09	3.04
1982	390.51	11.73	3.00
1983	463.20	15.80	3.41
1984	588.26	24.44	4.15
1985	741.20	39.90	5.39
1986	803.80	59.60	7.41
1987	920.50	79.10	8.59
1988	1262.40	183.10	14.5
1989	1861.40	312.20	16.77
1990	3131.60	471.20	15.05
1991	4923.50	657.50	13.35
1992	8178.00	1043.90	12.76
1993	13471.40	1746.80	12.97
1994	19639.90	2545.60	12.96
1995	30328.60	3259.50	10.75

Source: adapted and calculated from SYS,1996.

7.2.4 Foreign Direct Investment

The driving force of the intensifying internationalisation of Shanghai's commodity and labour movement is the foreign direct investment (FDI) which poured into Shanghai attracted by Shanghai's strategic position in Chinese market. FDI is the most obvious indicator that a place has begun to integrate with the world capitalist economy, and the volume of FDI can tell us to what extent a place has integrated with the world economy.

China started to accept FDI after adoption of reform and open-door policy in 1978. In the initial years of China's open policy, the SEZs were the major destinations for

FDI. For example, from 1979 to 1989 SEZs accounted for 20.5% of national realised FDI value while Shanghai's share was 8.1% (Nyaw Mee-kau, 1996). Table 7.7 shows that Shenzhen's annual FDI outweighed Shanghai's in term of contractual value until 1992 when Shanghai's FDI dramatically increased (750% annual growth). From 1992 on, Shanghai became the major recipient of FDI in China. In 1994, China as a whole received 17% of the global FDI and accounted for one-third of the total FDI in developing countries, and Shanghai accounted for 12.1% of national FDI (Nyaw, 1996). That meant Shanghai hosted around 2.1% of the global FDI in 1994. By the end of 1996, contracted FDI in Shanghai had totalled US\$ 45.3 billion of which some US\$16 billion had been realised.

Table 7.7 Contractual FDI of Some Major Cities in China: 1985-1995 (unit: US\$ 10⁸)

	China		Beijing		Shanghai		Guangzhou		Shenzhen	
	value	% of China	value	% of China	value	% of China	value	% of China	value	% of China
1985	59.3	--			7.1	12.0	4.8	8.1	10.3	17.3
1986	28.3	4.2	14.8	3.0	10.5	3.2	11.1	5.1	18.1	
1987	37.1	6.2	16.8	2.5	6.7	2.1	5.8	5.7	15.3	
1988	53.0	1.4	2.7	3.3	6.3	3.9	7.4	4.3	8.1	
1989	56.0	0.8	1.5	3.6	6.4	4.0	7.2	4.7	8.4	
1990	66.0	1.2	1.8	3.8	5.7	4.7	7.2	6.8	10.3	
1991	119.8	2.9	2.4	4.5	3.8	7.1	5.9	10.9	9.1	
1992	581.2	14.8	2.5	33.6	5.8	45.0	7.7	25.0	4.3	
1993	1114.4	62.8	5.6	70.2	6.3	68.4	6.1	49.7	4.5	
1994	826.8	45.3	5.5	100.3	12.1	68.6	8.3	28.3	3.4	
1995	912.8	27.4	3.0	105.4	11.6	67.3	7.4	34.6	3.8	

Sources: SYC, 1996; Collection of Statistics of Coast Open-cities, SZE and Key Cities, 1995.

Compared with the other cities in the coastal region, FDI in Shanghai has two particular features. First, Shanghai's FDI is less Hong Kong originated and more internationally-oriented. Since China opened its doors, investment from Hong Kong has been the dominant resource. Up to 1997, FDI from Hong Kong accounted for 41.1% of total FDI actually utilised in China. This is particularly the case with Guangdong where over 60% FDI comes from Hong Kong (GSB, 1999). It has been noted that the rapid economic growth of South China was largely driven by small- and medium-size and labour-intensive investments from adjacent Hong Kong and Macao (Sit and Yang, 1997). Shanghai's colonial past and its role as a strategic

location for the Chinese market with a relatively better trained labour force, and good infrastructure attracted foreign investment from a wide geographical region. While Hong Kong is still the biggest contributor to Shanghai's FDI accounting for 39.4% of total contracted FDI by 1997, investment from America, Japan, Singapore and so on also play a significant role in the formation of Shanghai's FDI (Table 7.8).

Table 7.8 Contracted FDI in Shanghai by Country: for the year ending 1997 (US\$: million)

	Total	Hong Kong	USA	Japan	Singapore	Taiwan	UK	Germany
Value	29082	11470	3233	2254	1839	1644	1047	624
% of total	100	39.4	11.1	7.8	6.3	5.7	3.6	2.1

Source: SYS, 1998.

Second, while joint ventures tend to be small- and medium-sized in south China, the big foreign invested enterprises with a total investment of US\$ 10 million or more play a significant role in Shanghai. Large TNCs' interests in Shanghai is demonstrated by the fact that of the World's Largest 500 Corporations listed in Fortune in 1998, 254 have already landed in Shanghai. Among those 254 corporations, 144 have set up enterprises, 26 foreign banks and insurance firms have established affiliates and 84 have had their own representative offices in Shanghai. By August 1999, 144 TNCs alone had invested US\$ 9.4 billion which accounted for more than one fifth of total contracted FDI in Shanghai. Of the US\$ 9.4 billion investment, some US\$ 8.1 billion (86.2%) was invested in Pudong New Area. Therefore, the analysis of investment by Fortune 500 corporation in Pudong is very indicative of the whole picture of investment by these corporations in Shanghai.

By September 1999, a total of 98 world large corporations listed in Fortune's 500 World Largest Corporations (August 3, 1998) had invested in Pudong, setting up 181 enterprises (projects) (see Table 7.9)

Based upon the timing of investment made by these corporations, three periods can be identified (see Table 7.10 and Figure 7.2). Prior to 1992, although Shanghai had attracted hundreds of millions of dollars in FDI, the world largest TNCs showed little

Table 7.9 Investment of Fortune 500 Corporations in Pudong (US\$: million)

No	Rank ¹	Corporation	Country ²	No. of projects ³	Contracted total investment ⁴	Contracted foreign investment
1	1	General Motors	U.S.	5	1606.5	820.0
2	2	Ford Motor	U.S.	1	4.3	3.4
3	3	Mitsui	Japan	4	26.9	26.4
4	4	Mitsubishi	Japan	1	28.4	14.2
5	5	Royal Dutch/Shell Group	Brit./Neth.	1	0.2	0.1
6	6	Itochu	Japan	1	1	1
7	7	Exxon	U.S.	1	0.7	0.7
8	9	Marubeni	Japan	1	3	1
9	10	Sumitomo	Japan	3	3.1	3.1
10	12	General Electric	U.S.	2	0.6	0.4
11	13	Nissho Iwai	Japan	1	2.3	2.3
12	14	Intl. Business Machines	U.S.	3	1.7	1.6
13	18	Daewoo	S. Korea	4	193.4	186.4
14	21	Hitachi	Japan	2	167.7	52.4
15	23	Matsushita Electric Industrial	Japan	5	171.5	137.2
16	24	Siemens	Germany	5	106.1	60.4
17	26	Mobil	U.S.	1	0.3	0.3
18	30	Sony	Japan	2	410.6	287.4
19	35	Unilever	Brit./Neth.	2	1.2	0.7
20	36	Nestle	Switzerland	1	5.1	5.1
21	39	Boeing	U.S.	1	0.3	0.3
22	40	Texaco	U.S.	1	2	1
23	41	Toshiba	Japan	1	0.4	0.4
24	47	Hewlett Packard	U.S.	3	44.9	44.9
25	49	E. I. Du Pont De Nemours	U.S.	2	25.3	20.3
26	52	Fujitsu	Japan	1	10	2.9
27	53	RWE Group	Germany	1	0.2	0.2
28	54	NEC	Japan	1	1200	342.9
29	65	Renault	France	1	0.3	0.3
30	71	SK	S. Korea	1	12.0	5.9
31	77	BASF	Germany	4	237.0	173.7
32	80	Bayer	Germany	3	45.6	22.9
33	82	Nichimen	Japan	1	1	1
34	93	Motorola	U.S.	1	12.0	6.7
35	105	Hyuundai	S. Korea	2	1.5	1.3
36	111	Industrial Bank of Japan	Japan	1	21.1	21.1
37	115	Kanematsu	Japan	1	1	1
38	120	Daiei	Japan	1	0.7	0.7
39	121	Samsung	S. Korea	2	5.2	2.8
40	125	Intel	U.S.	2	30.2	30.2
41	135	Thyssen	Germany	1	0.7	0.7
42	137	Volvo	Sweden	2	1.7	0.8
43	148	Canon	Japan	3	31.6	16.6
44	149	Sanwa Bank	Japan	1	0.4	0.4
45	150	Johnson & Johnson	U.S.	2	0.7	0.3
46	165	Kansai Electric Power	Japan	2	0.8	0.8
47	168	Sakura Bank	Japan	1	0.5	0.5
48	176	Bell South	U.S.	4	174.4	77.8
49	181	DIAGEO	Britain	1	70	70
50	186	Dai-Ichi Kangyo Bank	Japan	1	0.2	0.2
51	188	Loews	U.S.	2	0.6	0.6
52	192	Atlantic Richfield	U.S.	1	4.4	1.1
53	196	Toho Mutual Life Insurance	Japan	2	1.6	0.8
54	202	Chiyoda Mutual Life	Japan	2	0.4	0.3

Insurance						
55	207	Chubu Electric Power	Japan	1	0.2	0.2
56	209	Xerox	U.S.	1	1	1
57	210	Imperial Chemical Industries	Britain	2	1.5	1.5
58	215	Tokio Marine & Fire	Japan	3	5.3	2.9
Insurance						
59	220	UAL	U.S.	1	0.8	0.4
60	222	Supervalu	U.S.	1	0.2	0.1
61	230	Bristol-Myers Squibb	U.S.	1	0.3	0.3
62	238	Toyota Tsusho	Japan	1	0.3	0.3
63	245	Sanyo Electric	Japan	1	10	10
64	253	PG&E Corp.	U.S.	11	67.2	51.1
65	255	US West	U.S.	1	0.6	0.3
66	261	Minnesota Mining & MFG	U.S.	1	0.2	0.2
67	264	Taisei	Japan	1	1.1	0.3
68	266	Sprint	U.S.	1	1	1
69	269	Eastman Kodak	U.S.	2	1142.8	915.1
70	273	Isuzu Motors	Japan	2	1	1
71	274	Sharp	Japan	3	292.6	177.4
72	278	Fried. Krupp AG Hoesch-Krupp	Germany	1	1429.9	857.9
73	297	Archer Daniels Midland	U.S.	1	0.3	0.3
74	303	Taiyo Mutual Life Insurance	Japan	2	2.2	2.2
75	315	Lufthansa Group	Germany	1	0.2	0.2
76	316	Man	Germany	3	1.5	1.2
77	318	Time Warner	U.S.	1	6	3
78	324	Winn-Dixie Stores	U.S.	2	0.5	0.3
79	333	Tohoku Electric Power	Japan	2	4.2	4.2
80	339	Deere	U.S.	2	2.4	0.9
81	341	Smithkline Beecham	Britain	1	30.4	21.3
82	348	Southern	U.S.	1	1.7	1.7
83	360	Otto Versand	Germany	1	0.7	0.2
84	371	Pohang Iron & Steel	S. Korea	1	186.5	186.5
85	384	Rockwell International	U.S.	2	16	11.2
86	386	Daido Life Insurance	Japan	1	7.5	1.9
87	390	Henkel	Germany	1	8.0	6.0
88	391	Jardine Matheson	China (H.K.)	3	1.5	1.5
89	396	Ricoh	Japan	2	46.6	26.8
90	403	Kawasho	Japan	1	0.2	0.2
91	423	Fuji Heavy Industries	Japan	4	9.4	7.1
92	447	Snow Brand Milk Products	Japan	1	0.4	0.4
93	454	Gillette	U.S.	2	95.2	58.9
94	459	Showa Shell Sekiyu	Japan	2	4.3	2.5
95	470	Inchcape	Britain	3	3.6	3.3
96	471	Cathay Life	Taiwan	1	0.4	0.1
97	472	Peninsular & Oriental Steam Nav.	Britain	1	0.7	0.7
98	498	Komatsu	Japan	2	1.8	1.5
Total				181	8086.9	4281.6

Note: ¹Corporations are ranked by revenues they made in 1997.

²Corporations may make their investment via their subsidiaries which are located in third places. For instance, Nestle made its investment in Pudong through its subsidiaries in Hong Kong.

³Foreign corporations set up a joint venture or a wholly foreign owned enterprises by proposing a project to the Chinese authority for approval. In this sense, a project literally means a foreign-invested enterprise.

⁴Total contracted investment includes those invested by Chinese companies.

Resource: collected from my fieldwork in 2000.

interest in investing in Shanghai. The year of 1992 marked a turning point when China's reform and opening-up was accelerated by Deng Xiaoping. In the four years 1992-1995, 96 enterprises (53% of the total) were established by Fortune 500 corporations. The financial crisis of 1996 in Southeast Asia slowed down the pace of investment by the Southeast Asian countries and particularly Japan. However, due to the continuous capital inflow from America and Europe, 78 enterprises were set up from 1996 to September 1999.

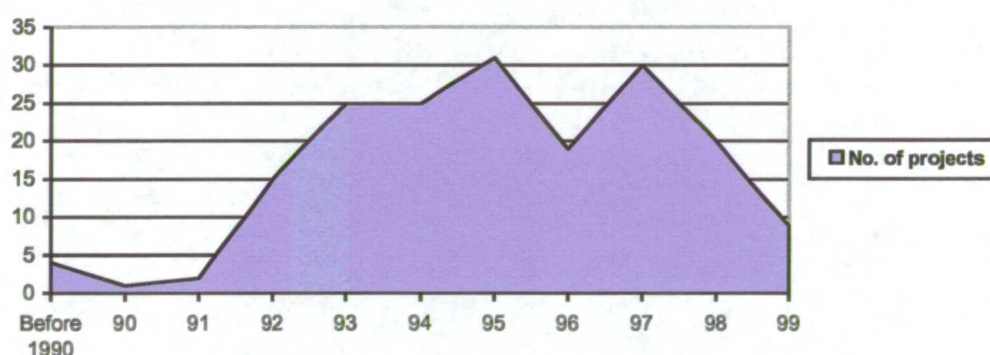
Table 7.10 The Number of Projects Funded by Fortune 500 Corporations in Pudong: By Year

	Before 1990	90	91	92	93	94	95	96	97	98	99*
No. of project	4	1	2	15	25	25	31	19	30	20	9

Note: *up to September 1999

Source: Wang (2000: 16)

Figure 7.2 The Number of Projects Funded by Fortune 500 Corporations in Pudong: By Year



Unsurprisingly, in terms of national origin, most investment both in number and value came from the U.S., Japan and Germany - countries that have the most corporations listed in Fortune. Investment by these three countries made up 82% of the total number of established enterprises and 95.5% of the total contracted foreign investment (see Table 7.11). Japan had 68 projects (37.6%), followed by America's 60 (33.1%) and Germany's 21 (11.6%). However, in terms of value, American corporations made the biggest contribution (38.5%) followed by German (32.9%), while Japan contributed 24.1% of the total investment. This indicates that projects

invested by Japanese corporations tend to be relatively small compared with those invested by American and German.

Table 7.11 Investment by Fortune 500 Corporations in Pudong: By Country (US\$: million)

Country	No. of projects	% of total	Contracted foreign investment	% of total
Japan	68	37.6	1033.4	24.1
America	60	33.1	1650.1	38.5
Germany	21	11.6	1411.0	32.9
Korea	10	5.5	110.8	2.5
Britain	8	4.4	29.9	0.6
Others	14	7.7	46.4	1.4

Source: calculated from the Table 7.9

In terms of investment structure, 92.7% of the total investment went to secondary industry (see Table 7.12). Although over half of the projects were invested in tertiary industry, the total investment in the tertiary industry was only about US\$ 312 million (7.3% of the total). This is mainly due to the fact that key areas in the tertiary industry such as RMB business in banking industry, group policy of insurance, retail and so on are not opened to foreign investors, while almost all sectors in the secondary industry has long welcomed foreign investment. The tertiary investments were also much smaller with an average investment of US\$ 3.2 million. The average investment of all projects by the Fortune 500 corporations in Pudong was as much as US\$ 23.7 million, while the average industrial investment reached US\$ 47.8 million.

Table 7.12 FDI Structure by the Fortune 500 Corporations in Pudong (US\$: million)

	No. of projects	% of total	Contracted foreign investment	% of total	Average investment
Secondary industry	83	45.9	3970	92.7	47.8
Tertiary industry	98	54.1	312	7.3	3.2
Of which the real estate	7	3.9	133	3.1	19
Total	181	100	4282	100	23.7

Source: Wang (2000: 17)

If we classify projects with investment of US\$ 10 million or more as the large projects (as they do in Shanghai), then 49 projects (27.1%) invested by these corporations fall into this category (see Table 7.13, Figure 7.3). Among these 49

Table 7.13 FDI Structure of Fortune 500 Corporations in Pudong: By Amount of Investment (US\$: million)

	No. of project	% of total	Contracted foreign investment	% of total
>10	49	27.1	41.72	97.4
5-10	12	6.6	0.36	0.8
1-5	39	21.5	0.52	1.3
< 1	81	44.8	0.22	0.5

Source: Wang (2000: 18)

Figure 7.3 FDI Structure of Fortune 500 Corporations in Pudong: By Amount of Investment (US\$: million)

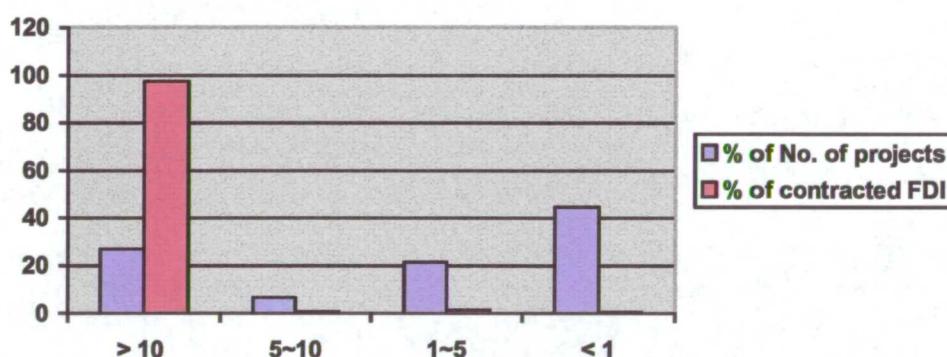


Table 7.14 Four Mega Joint Ventures in Shanghai (US\$: million)

	Investor	Date of establishment of JV	Total contracted investment	Contracted foreign investment
Shanghai General Motors Ltd.	GM (US); Shanghai Motor Industry (Group) Co. Ltd.	May, 1997	1521	760.5
Kodak Co. (China) Ltd.	Eastman Kodak (US);	March, 1995	1138.2	1061.2
Shanghai Hua Hong NEC Electronic Co. Ltd.	NEC (Japan); Shanghai Hua Hong (Group) Co. Ltd.	May, 1997	1200	342.9
Shanghai Krupp Stainless Steel Co. Ltd.	Fried. Krupp AG Hoesch-Krupp (Germany), Shanghai Pudong Steel (Group) Co. Ltd.	October, 1998	1429.9	857.9
Total			5289.1	3022.5

Source: personal interview in 1999 with Chan Fang, Secretary to the Vice-Director of Shanghai Pudong Administration.

projects, 4 have been called "mega-projects" with a total investment of US\$ 1 billion or more (see Table 7.14). These four "mega-projects" alone accounted for 70.6% of the total contracted foreign investment by Fortune 500 corporations. Among these four "mega-projects", Shanghai GM Ltd is the biggest with total investment of US\$ 1.521 billion of which US\$ 0.76 billion is invested by GM. Located in Pudong Jinqiao Export Processing Zone, Shanghai GM Ltd. is the biggest Sino-American joint-venture in China. With a planing production capacity of 100,000 cars a year, it targets at the burgeoning Chinese automobile market. The first car, branded as "Buick", was produced in December 1998. A total of 23,000 "Buick" was produced in the year of 1999 (Wang, 2000).

In contrast with the small projects, these big joint-ventures tend to be technology-intensive with areas involved automobile, information technology, bio-medical, new materials and the like areas where foreign capital is most wanted by the SMG to upgrade Shanghai's outdated industry. However, it is important to note that nearly half the projects funded by these world largest corporations are small projects with investment below US\$ 1 million. This indicates that the investment of many world largest corporations in Shanghai is still in the experimental stage, and Shanghai holds a lower position in their global organisation of production at present.

The above analysis of investment by Fortune 500 Corporations in Pudong has also pointed to a major different between Shanghai and China's southern provinces in attracting FDI. While South China has been used by the small- and medium-sized capital from Hong Kong as an export processing base to relocated their labour-intensive industries, the big TNCs investing in Shanghai are targeting the burgeoning Chinese market. Shanghai, for them, is the beachhead through which a selling network across the whole of China can be developed. Indeed, this different strategic view of TNCs towards Guangdong and Shanghai is the major reason why Guangdong was rapidly transformed into an outward-oriented economy whereas Shanghai is still generally an inward-oriented economy.

After 20 years implementation of reforms and the open door policy, Shanghai, which was virtually isolated from the outside in 1978, is now a major node in coastal China, which firmly links up with the world commodities, labour and particularly capital

markets. This fundamental change in its mode of integration with world economy has had a decisive impact on Shanghai's urban restructuring in economic, social and spatial terms, which are discussed below.

7.3 Changes in Shanghai's economic base

Shanghai's urban restructuring occurred, first and most importantly, in the economic domain. In this section, I look at two major aspects of its economic restructuring: ownership structure and sectoral structure.

7.3.1 Ownership structure

As discussed in Chapter 5, three decades of nationalisation policy under the state socialism led China to a virtually one ownership economy – state-ownership. This was particularly the case with Shanghai which was designed to be a model socialist city. This one ownership structure has been changed since other sectors including private and foreign invested-enterprises were reintroduced by the reform. Take industry for example. As shown in Table 7.15, there was no "other" enterprises at all in Shanghai's industry in 1978. After reform, the "other" enterprises started to appear, and the increase of its number speeded up drastically in 1990s. In 1997, there were 6,118 other enterprises accounting for 25% of the total number of Shanghai's industrial enterprises, up from 1581 (12% of the total) in 1990.

Table 7.15 Number of Industrial Enterprises by Ownership Sector in Shanghai, 1978-1997^a

Year	SOEs		COEs		Others ^b		Total
	Number	% of total	Number	% of total	Number	% of total	
1978	3372	42	4590	58	0	0	7962
1980	3164	44	3914	55	71	1	7149
1985	4176	39	6141	58	339	3	10656
1990	4517	34	7122	54	1581	12	13220
1995	3713	23	7871	50	4293	27	15877
1997	3245	14	14623	61	6118	25	23986

Notes: ^a Includes all enterprises operating at the village level and above. Excluded are those operating below village level and those operated by individual households.

^b Others include private and state-collective, state private, collective-private, foreign-invested enterprises, and enterprises operated by overseas Chinese and Hong Kong/Macao/Taiwan industrialists.

Source: Mok (1996: 206); SSY, 1998: 178.

An intriguing observation from Table 7.15 is that the number of enterprises in the state sector, particularly the SOEs remained nearly unchanged, but their share of the total number of enterprises in Shanghai dropped sharply from 42% in 1978 to 14% in 1997. It means that industrial restructuring has been achieved mainly by expanding the non-state sector – a fact that reflects China's dual-track reform strategy as discussed in the previous chapter.

With the dramatic expansion of the non-state sector, particularly with the increasingly significance of foreign-invested enterprises, Shanghai's industrial ownership structure underwent a significant change as shown in Table 7.16. In 1980, all aspects of industry were overwhelmingly dominated by the state-sector while the "others" category was negligible. As the reform proceeded, the share of the state sector declined rapidly in all aspects. By 1997, while the state sector still accounted for over 50 % in terms of number of enterprises and of number of workers, it was the non-state sector that accounted for the majority of gross value of industrial output and of total pre-tax profits. Again, we can see the most significant change occurred in 1990s when foreign-invested enterprises expanded dramatically at the expense of the state sector. In 1997, the foreign-invested enterprises had a 38.2% share of total pre-tax profits, a 38.9% share of gross value of industrial output, although they accounted for 14.0% and 20.5% of number of enterprises and of workers. This indicates their much higher level of productivity.

Nearly 20 years after the reform, the non-state sector has grown from nearly zero into a neck and neck position with the state sector, and foreign-invested enterprises* have become a major component of Shanghai's industry. More profoundly, the foreign-invested enterprise is the most efficient sector in Shanghai's industry. In all the

* There are three types of foreign-funded enterprises in China: the wholly-foreign owned, the co-operative joint ventures and the equity-based joint ventures. Enterprises set up by investors from Taiwan, Hong Kong and Macao enjoy the same status and fall into the category of foreign-funded enterprises in statistics.

Table 7.16 Comparison of Industrial Enterprises by Ownership Sector in Shanghai, 1980-1997

Sector	1980	1985	1990	1995	1997
% share in number of enterprises					
SOE	39.8	32.1	26.1	23.4	13.5
COE	59.1	64.0	58.8	49.6	61.3
Others	1.1	3.9	15.1	27.0	25.2
Foreign-invested	0	0.1	2.9	18.4	18.1
% share in number of workers					
SOE	69.8	64.4	60.4	47.9	34.7
COE	28.9	32.2	28.3	23.5	31.0
Others	1.3	3.4	11.3	28.6	34.3
Foreign-invested	0.1	0.2	1.7	13.9	20.5
% share in gross value of industrial output					
SOE	89.6	87.7	80.4	42.8	30.1
COE	9.3	10.4	9.5	12.2	18.0
Others	1.1	1.9	10.1	45.0	51.9
Foreign-invested	0.1	0.3	5.2	29.3	38.9
% share in total pre-tax profits					
SOE	91.6	85.6	78.6	42.8	30.0
COE	7.6	12.3	10.0	7.9	14.3
Others	0.8	2.1	11.4	49.3	55.7
Foreign-invested	0.1	0.3	5.9	29.0	38.2

Note: Foreign-invested enterprises include investment from Hong Kong, Macao and Taiwan.

Source: Mok (1996: 211); SYS, 1998: 196-201.

Table 7.17 Efficiency Indicators of Industrial Enterprises by Ownership Sector in Shanghai, 1997

Sector	After-tax profits/cost	Overall industrial labour productivity (yuan/person)	Liquid asset turnover (times)
SOE	4.16	28099	1.29
COE	3.95	21015	1.59
Sino-foreign equity joint ventures and co-operative ventures	6.74	92843	1.67
Wholly-owned foreign enterprises	1.2	45801	1.92
Equity joint ventures and co-operative ventures with HK, Macao and Taiwan	5.09	50417	1.57

Source: SYS, 1998: 205.

efficiency indicators listed in Table 7.17, all kinds of foreign-invested enterprises compare very favourably with the SOE's and COE's.

It can, therefore, be reasonably expected that the tendency for the state sector's share to decline while the non-state sector expands will gather further momentum in the years to come. As the government carries on the policy of "keep the large and let go the small" to reform its ailing SOEs, it will be inevitable that the non-state sector, particularly the foreign-invested sector, will continue to gain ground, and even take the majority share in terms of employment, which will have profound social implications (to be discussed later on).

The dichotomy of the prosperous non-state sector vis-à-vis the declining state sector is, of course, not only the case with industry. It is true of all economic sectors in Shanghai. In 1998, Shanghai's GDP reached RMB 368.8 billion of which 283.8 billion was produced by the state sector and 85 billion by the non-state sector. The ratio of state to non-state evolved from 99:1 to 77: 23. The non-state sector's share of Shanghai's GDP has increased dramatically from just 1% in 1978 to 23.1% in 1998 (Shanghai Economy Yearbook pocket edition, 1999). Apart from the dramatic quantitative expansion, the non-state sector and particularly foreign-invested enterprises have played a significant role in transforming Shanghai economy's sectoral structure.

7.3.2 Sectoral structure

San Er Yi strategy

In thirty years under the state socialist ideology from 1949 to 1979, Shanghai had been changed from a capitalist "consumption city" into a socialist "production city". As Table 7.18 shows, in 1980 Shanghai's economy was dominated by secondary industry with its share of GDP reaching 75.7%. Acknowledging that this industry-biased sectoral structure hampered the economy's healthy development, the SMG put an ever increasing emphasis on the development of the tertiary sector, launching a series of policies to encourage investment both from home and abroad in the tertiary sector. In its Eighth Five-year Plan (1991-95), the SMG set up a principle of *san, er, yi* for the ranking of priorities for tertiary, secondary and primary sectors in

development (Hung, 1991;). *San*, a Chinese abbreviation for the tertiary sector, was ranked at the top as it was the sector most desirable for drastic expansion. *Er*, an abbreviation of the secondary sector, needed to be actively readjusted. *Yi*, which referred to the primary sector, was to be stabilised.

Detailed plans for tertiary development placed emphasis on the growth of commercial and advanced service sectors, particularly the FIRE (finance, insurance and real estate) sector (Han, 2000). In terms of commerce, the plan was to make Shanghai the largest trade centre and shopping paradise in China, by enlarging commodity flow, improving commercial structure, readjusting the spatial distribution of shopping outlets and so on. For financial sector, the goal was to make Shanghai the financial centre of China and the Far East by attracting more domestic and foreign financial institutions to set up their offices in Shanghai.

Tertiary sector's extraordinary growth may show the positive impact of this *san er yi* strategy. In the period 1978-97, the growth of Shanghai's tertiary sector, compared with that of other economic sectors, was the most rapid with its annual growth rate of 14.3% (Han, 2000). By 1997, the value of the tertiary sector had reached RMB 153 billion with its share of GDP reaching 45.5% – more than double the share of 1980.

Table 7.18 Shanghai: GDP Changes by Industry (1980,1985,1990,1997) (unit: 100 million RMB)

	1980		1985		1990		1997	
	value	%	value	%	value	%	value	%
Primary industry	311.9	100	466.8	100	756.5	100	3360.2	100
Secondary industry	10.1	3.2	19.5	4.2	32.6	4.3	75.8	2.3
Tertiary industry	236.1	75.7	325.6	69.8	482.7	63.8	1754.5	52.2
	65.7	21.1	121.6	26.0	241.7	31.9	1530.0	45.5

Sources: SYS, 1986,1998.

The change in Shanghai's economic sectoral structure is also reflected in the change of Shanghai's employment structure shown in the Table 7.19. Employment declined the fastest in primary industry. In 1980, primary industry employed 2.12 million people, accounting for 29% of total work force. By 1997, its employment had dropped to 1.08 million people, accounting for only 12.8% of total. Employment in Shanghai's tertiary sector increased steadily in the 1980s and its increase quickened throughout the 1990s. By 1997, its employment had reached 3.24 million, with its share of total employment being 38.3%. Secondary industry increased its share of

employment from 48.6% in 1980 to 59.3% in 1990. Throughout the 1990s, with the rapid expansion of employment in the tertiary sector, the industry steadily lost its work force from 4.67 million in 1990 to 4.16 million in 1997.

Table 7.19 Shanghai: Changes in Employment Structure by Industry in 1980, 1985, 1990, 1997 (unit: 10,000 persons)

	Primary		Secondary		Tertiary	
	Number	% of total	Number	% of total	Number	% of total
1980	212	29.0	355	48.6	164	22.4
1985	127	16.4	445	57.3	203	26.2
1990	87	11.0	467	59.3	233	29.6
1997	108	12.8	416	49.1	324	38.3

Source: SYS, 1998.

The rise of the producer services sector

The rapid expansion of the tertiary sector in both GDP and employment terms is a major element of the sectoral restructuring of Shanghai's economy in the past two decades. When the tertiary sector is broken down, however, more profound changes occurring within the sector can be found.

In 1980, the tertiary sector was dominated by consumer services with the wholesale, retail and catering business accounting for 48.1% of total value. This consumer service oriented tertiary sector has since changed dramatically. While consumer services such as the wholesale, retail, catering business and transportation and telecommunication services continuously contracted, producer services such as banking and insurance and real estate expanded rapidly. From 1980 to 1997, the value of the banking and insurance sector increased from RMB 7.8 billion to RMB 30.0 billion with its share growing from 11.9% to 30% of the total value. It is now the biggest sector in Shanghai's tertiary industry. The real estate sector whose value was only RMB 0.4 billion with its share being 0.6% in 1980 has grown into a major sector with its value and share being RMB 147.5 billion and 9.6% respectively in 1997 (Table 7.20).

The rapid rise of producer services in Shanghai's economic structure has had significant implications for the city's overall economic, spatial and social transformation. Producer services, central components of which are insurance,

banking, financial services, real estate, legal services, accounting, and professional associations, are services produced for firms rather than individuals (Sassen, 1991). Unlike consumer services, which are bought by final consumers, producer services are intermediate outputs.

Table 7.20 Shanghai: GDP Changes in Tertiary Industry by Group (1980, 1990, 1997) (unit: RMB 100 million)

	1980		1990		1997	
	value	%	value	%	value	%
Tertiary industry	65.7	100	241.7	100	1530	100
* Transportation, communication	15.5	23.5	62.4	25.8	227.9	14.9
Wholesale, Retail and catering business	61.6	48.1	51.8	21.4	380.8	24.9
Banking and Insurance	7.8	11.9	71.1	29.4	459.6	30.0
Real estate	0.4	0.5	3.8	1.5	147.8	9.6

Note: * Main sectors

Source: SYS, 1995, 1998.

A major development within the world economy since the 1970s has been that producer services were the fastest-growing sectors in advanced countries, whereas consumer services have levelled off. Sassen (1991) argues that it is producer services that constitute the leading edge of the real shift of advanced countries from a manufacturing to a service economy. While the growth of consumer services is only a phase of economic development based on the centrality of mass production and mass consumption, the rise of producer services represents the emergence of a new post-industrial economy. This economy, globally integrated yet spatially dispersed, relies fundamentally on the economic sectors such as financial, insurance, accounting and the like that produce the control capability. The more globalised the economy is, the more it relies on the producer services, and the more these produce services concentrated in several world major cities. At the present, New York, London and Tokyo where producer services are disproportionately concentrated, are so-called global cities that function as the command centres for global economy. However, this concentration of producer services is also present in lower hierarchy cities which function as control centres for regional economies.

The recent increase in share of producer services in the economic structure of Shanghai can not be understood as being similar to what happened in cities of advanced countries, given the fact that China is still far from fully integrated with the world economy. However, it is a clear indication that Shanghai's capability of

controlling economic activities has been greatly strengthened, and so has its position as a regional economic centre. This position is not administratively given as was it before the reform, but is the result of the evolution of market economy. Furthermore, the spatial and social implications associated with the rise of producer services, which have developed fully fledged in global cities, has begun to unfold in Shanghai, as I will discuss in the following sections.

The impact of FDI on Shanghai's economic sectoral restructuring

The incentives given by the SMG provide a policy environment in which economic restructuring can be achieved. The underpinning force of the transformation of Shanghai's economic sectoral structure came, however, from the inward investment, particularly FDI.

The structure of Shanghai's FDI can be divided into two periods with the year 1990 as the turning point. The transformation of FDI structure reflected the interaction of government policy and global capital. In the early 1980s, unlike Guangdong, Shanghai, with its broad industrial base, was more interested in attracting modern technology to renovate its industries than in bringing in labour-intensive industries or in doing export processing for Hong Kong (Tian, 1996). Shanghai's policy towards FDI was also more rigid in areas such as local participation and the forced foreign exchange requirement. As a result, a great deal of FDI had gone instead to neighbouring cities that offered much more flexibility.

Meanwhile, in the tertiary sectors, because little was open to external investors, FDI was focused on the catering sector, particularly on luxury hotels which entailed a huge amount of investment. The tightened screening policy towards manufacturing FDI and the relatively big projects in the tertiary sector led to a tertiary sector dominated FDI structure in the 1980s. In 1985, contracted FDI in the tertiary industry reached US\$ 674.8 million, accounting for 95% of total FDI, whereas FDI in secondary industry was US\$ 35.9 million, accounting for only 5% (see Table 7.21).

Lagging behind in attracting FDI, the SMG started to change its policy in the second half of the 1980s, becoming more willing to accept small-scale export-oriented FDI. Three Economic Technical Development Zones – Minhang, Hong Qiao and

Caohejing were set up, in which foreign invested enterprises enjoyed a set of preferential treatments. Meanwhile, rising domestic labour costs and the real appreciation of their currencies in some Asian NIEs, such as Taiwan and Korea, made China more attractive to manufacturing FDI flows. All of these changes resulted in the rapid growth of FDI in secondary industry. By contrast, most of the tertiary sector including finance, insurance, landrent, retail, wholesale and telecommunication were still monopolised by the state-owned enterprises because they were regarded as the key industries which have important impacts on the whole economy of China. Indeed, the government had become more selective in its approval of service activities since 1986 when a national austerity policy was adopted to curb the overheated economy (Tian, 1996).

Table 7.21 Shanghai: FDI by Sector 1985-1996 (unit: US\$ million)

	1985	1989	1990	1991	1992	1993	1994	1995	1996
Agriculture									
Number	2	3	0	4	6	2	19	13	27
Contracted value	0.2	1.6	0	10.2	1.6	5.4	12.9	16.6	40.3
% of total value	0	1	0	2.6	1	0	0	0	0
Secondary Industry									
Number	50	175	189	333	1677	2589	2700	1899	1286
Contracted value	36	181	360	338	1808	2591	3777	4043	4893
% of total value	5	50	96	75	54	36	38	38	44
Tertiary Sector									
Number	42	21	12	18	320	1040	1101	933	793
Contracted value	675	177	15	101	1547	4520	6236	6480	6135
% of total value	95	49	4	23	46	64	62	62	55

Source: Tian (1996: 170); SYS, 1997.

As a result, the share of FDI in tertiary industry shrank rapidly, and by 1990, the structure of FDI had been dominated by the secondary industry. While contracted FDI in tertiary industry declined sharply from US\$ 675 million in 1985 to US\$ 15 million in 1990, FDI in secondary industry increased rapidly to US\$ 360 million with its share of total FDI reaching a peak of 96% in 1990.

FDI in Shanghai started a new phase of dramatic increase in volume as well as a change in its structure in 1990 when the central government launched the development of Pudong. In the package of preferential policies given by the central government for the purpose of developing Pudong, one major element was to open

more tertiary sectors to foreign investors. Foreign banks were allowed to set up branches in Shanghai, and the retail and property sectors were also opened to the foreign investors. Encouraged by these policies, FDI flows to tertiary sectors increased rapidly, a trend that was further strengthened in 1992 when Shanghai, together with several major cities, was granted the right to open even more tertiary sectors to external investors. By 1995, some thirty sectors of the service industries, including banking, real estate, advertising, culture, recreation, information consultation, catering, design, decorations, education and health care, had been opened up to foreign investors (Tian, 1996: 172).

As shown in Table 7.21, since 1990, the contracted value of FDI in the tertiary sector has risen dramatically, up from US\$ 15 million in 1990 to a peak of US\$ 6236 million in 1994. Although FDI in industry has also increased sharply, due to the more rapid growth of FDI in the tertiary sector, the share of FDI flowing to the tertiary sector has risen continuously. By 1993, its share of the total contracted FDI had surpassed industry's share, reaching 64%, while industry's share declined from 96% in 1990 to 36%. In terms of the contracted value of FDI, the tertiary sector has been the biggest component in Shanghai's FDI structure.

Breaking down the tertiary sector, we find that it is FDI in FIRE sectors, the typical producer services, that have played the most significant role in transforming Shanghai's FDI structure. As shown in Table 7.22, the sectoral distribution of FDI within the service sector has experienced a considerable change since 1990. This is mainly due to the introduction of a new policy whereby more and more service sectors opened up to foreign investors. Before 1990, hotels had been the dominant sector in the distribution of FDI in tertiary industry. Although, from 1980-1989, 96% of the FDI in tertiary flowed into the real estate sector, 98% of FDI in real estate was allocated to hotel projects (Tian, 1996:172). In 1990, the wholesale, retail and catering sectors (in fact, it was the hotel and restaurant, because retailing was not opened until 1992, and the wholesale sector has never been opened to foreigners) still dominated tertiary industry.

The change occurred in 1991 when the finance and insurance sectors were partially opened to foreign investors, and again in 1992 when foreign real estate companies

were allowed to invest in the domestic housing market. As a result, the sectoral distribution of FDI within tertiary industry has become dominated by the FIRE sectors. In the peak year of 1992, the FDI flowing to FIRE sectors accounted for 90% of the total constructed FDI in the tertiary industry.

Table 7.22 Contracted FDI in Shanghai's Tertiary Industry¹, 1980-1996 (US\$ million)

	Transportation, telecommunication, post		Wholesale, retail and catering		Real estate		Finance, insurance ²	
	Value	% of total	Value	% of total	Value	% of total	Value	% of total
1980-89	16.0	1	11.8	1	1564	96	--	--
1990	0.4	2.7	10.0	67.6	2.9	20	--	--
1991	9.9	9.8	3.0	3	63.3	62	20.1	20
1992	36.4	2.4	104.1	6.7	1298.2	84	88.8	6
1993	42.7	1	432.0	9.6	3411.2	76	519.6	12
1994	995.3	16.0	605.1	9.7	3695.1	59.3	N. A.	N. A.
1995	317.7	4.9	496.2	7.7	4870.5	75.2	N. A.	N. A.
1996	1.9	0	229	3.7	4024.2	65.6	N. A.	N. A.

Note: ¹the main sector

²FDI in finance and insurance was only allowed after 1991.

Sources: Tian (1996: 173); SYS, 1997.

Foreign banks and insurance companies were only allowed to enter Shanghai in 1991. Although the market was partially open to foreigners in the sense that foreign bank branches were only allowed to do foreign currency businesses with foreign-funded enterprises (FIEs), and foreign insurance firms were unable to sell policies to companies or other "group" entities, foreign financial institutions were rushing in. In 1991, US\$ 20.1 million FDI flowed in to the Finance and Insurance sector, accounting for 20% of total FDI in tertiary industry, up from nil in 1990. By the end of 1998, a total of 124 representative offices of foreign financial institutions including representative offices of foreign banks, foreign insurance companies, and all institutions providing financial intermediary services had been set up in Shanghai (Shanghai Economic Yearbook, Pocket Edition, 1999: 139). Table 7.23 shows a list of 40 Foreign-funded financial institutions that had set up their operational offices at the branch level in Shanghai. In 1998, Pudong was chosen as a pilot area where foreign banks were allowed to conduct RMB business with FIEs. By the end of 1999, 24 foreign banks had been granted rights for RMB business in Pudong.

Table 7.23 Foreign-Funded Financial Institution at the Branch Level in Shanghai: up to 1997

Country or region	Institutions	Year starting operation
Japan (9)	The Daiwa Bank	1993
	The Dai-Ichi Kangyo Bank *	1992
	The Tokyo Marine and Fire Insurance Co. Ltd.	1994
	Bank of Tokyo-Mitsubishi *	1991
	The Fuji Bank	1995
	The Long-Term Credit Bank of Japan	1995
	The Industrial Bank of Japan *	1991
	The Sanwa Bank *	1991
	The Asahi Bank *	1995
	The Sakura Bank *	1994
	The Sumitomo Bank *	1994
Korea (3)	The Commercial Bank of Korea*	1995
	The Korea Development Bank	1996
	Hanil Bank *	1996
U. S. A. (3)	Citibank *	1991
	Bank of America *	1991
	American International Assurance Co. Ltd.	1992
France (3)	Banque Indosuez *	1991
	Credit Lyonnais *	1991
	Societe Generale	1995
Thailand (3)	Bangkok Bank	1993
	TM International Bank Co. Ltd.	1996
	Chia Tai International Finance Co. Ltd.	1993
Hong Kong (3)	Po Sang Bank	1994
	The Bank of East Asia *	1920
	The Hongkong and Shanghai Banking Co. Ltd.*	1865
Germany (2)	Commerzbank *	1994
	Dresdner Bank *	1993
Singapore (2)	Overseas-Chinese Banking Co. Ltd. *	1927
	Development Bank of Singapore Ltd.*	1995
Holland (2)	ABN-AMRO Bank *	1993
	ING Bank	1995
Australia	Australia and New Zealand Banking Group Ltd.*	1993
U. K.	Standard Chartered Bank*	1858
Italy	Banca di Roma	1996
Canada	Royal Bank of Canada	1993
Switzerland	Credit Suisse First Boston *	1995
China, France	The International Bank of Paris and Shanghai*	1993
China, France	Shanghai Associated Finance Co. Ltd.	1991
China, Japan, Hong Kong	Shanghai International Finance Co. Ltd.	1991

Note: *those who had been granted the right for RMB business in Pudong.

Source: collected from fieldwork in 2000

The above analysis gives us an overall picture that the pace of Shanghai's economic sectoral restructuring has quickened since 1990, and shows that the process has been increasingly fuelled by FDI. The transformation of the structure of FDI from one dominated by industry to one in which the service sector is the biggest sector, and of the FDI structure within tertiary industry from consumer service-focused into a producer service dominated has made a great contribution to Shanghai's economic sectoral restructure which underwent the similar transformation. The transformation was carefully monitored and encouraged by the government who gradually ushered FDI into the intended areas in order to upgrade Shanghai's economic structure towards a more service-oriented one. The interaction of the government policy and inward investment is further reflected in Shanghai's spatial restructuring which is discussed in the following section.

7.4 Transformation of Shanghai's spatial morphology

Under state socialism, the socialist mode of production and reproduction brought about a peculiar urban spatial morphology that was distinctive from capitalist cities. One major feature of this socialist spatial structure was the mixture of residential and industrial areas. The distinction between residential and industrial areas, which was pervasive in capitalist cities, became blurred in socialist cities, and work-unit based, self-contained communities stemming from the project-specific development method dominated cities' spatial organisation.

Market-oriented reforms transformed the way that the city's land was developed, the emergence of a land market gave rise to a land rent gradient which made possible urban spatial differentiation. The mixed land use pattern was broken down and a new spatial structure based on a market system started to emerge. The first crack in the old spatial structure came from public housing provision.

7.4.1 Housing commercialisation

Under state socialism, workers and staff only received a very low monetary wage, mainly for food and clothes. This labour reproduction had to rely on services in kind

provided by the work unit through state investment. Housing, as the basic requirement for labour reproduction, was usually provided directly by work-units that received money for housing investment from their superior governmental departments. The main problem of this housing provision was that housing investment was unable to maintain a sustainable cycle (Wu, 1996). Housing as well as other service facilities was regarded as “non-productive” sectors that did not have a direct economic return. From the standpoint of the state, a vicious circle was involved in housing provision: the more housing that was built, the heavier the financial burden for the state. In order to maintain a high rate of accumulation and to maximise the output of industries, the state deliberately suppressed expenditure on “non-productive” sectors such as housing. As a result, a housing shortage was pervasive in all Chinese cities and Shanghai in particular. In 1978, the living space per capita in Shanghai was only 4.5 sq. m., and in addition, 56 % of the housing was shanty and old-lane houses, most of which did not have independent kitchen or toilet (Chen, 1994).

Confronted with the severe housing shortage, the government initiated housing reforms in late 1970s. On the production side, the reforms were intended to mobilise the work units to invest more money in housing provision. With the decentralisation and the reform of SOEs, work units had more autonomy and resources in the hand, so had they got more responsibilities for their own welfare. The sources of investment in housing provision were diversified and SRF (self-raised fund), substituting for state investment, became the major source. In 1980, state investment accounted for 65.7% of the total investment in housing provision, of which investment from the central government accounted for 20.5% and the investment from the local government 45.2%, while SRF accounted for 34.3%. By 1990, the share of SRF in the housing investment rose to 69.3% while the state investment dropped to less than 20% (Chen, 1994).

The success of housing reforms, however, depended on the establishment of a housing market whereby housing investment can have a decent return. Based on this perception, the government introduced a housing commercialisation scheme whereby housing can be gradually shifted from the welfare domain to the market. Initially, work units were allowed to develop commercial housing housing that is put onto

the market. Fearing that it would disturb the normal function of state work units, the government put forward regulations whereby real estate companies were set up and became the major producer of commercial housing (Wu, 1996). After 1991, all the commercial housing sold in the market was produced by real estate companies (SSB, 1997).

Given the fact that housing provision is at the core of the socialist welfare system, which can not be changed without changing the whole political economy, the commercialisation of housing gradually unfolded alongside the development of other reform policies. As show in Table 7.24, in 1990, a decade after housing reform, the total housing developed was 4,210,100 sq. m. of which 573,000 sq. m. was put onto the market, which meant that 13.6% of the total housing was commercialised and the majority of the housing was either administratively allocated or sold at a heavily discounted price. Not surprisingly, the pace of housing commercialisation dramatically quickened in the 1990s. By 1998, 76.5% of the total new housing was commercialised.

Table 7.24 Housing Commercialisation in Shanghai in 1990s

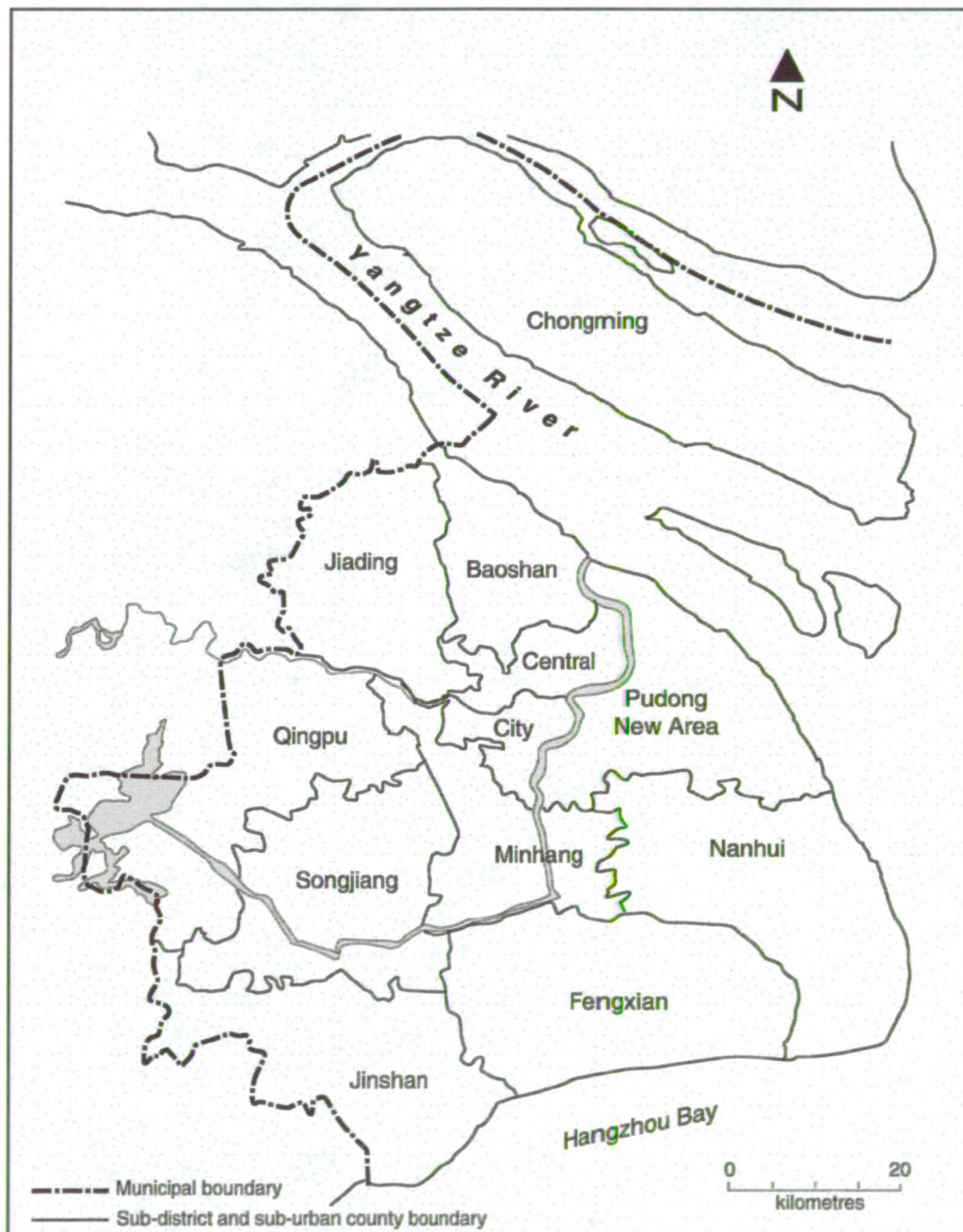
	Total housing (1,000 m ²)	Commercial housing (1,000 m ²)	The rate of commercialisation (%)
1990	4210.1	573.0	13.6
1991	4776.9	975.1	20.4
1992	5434.8	1122.5	20.7
1993	6165.0	3073.0	49.8
1994	8735.7	3198.7	36.6
1995	12689.0	5297.7	41.8
1996	15094.8	9923.0	65.7
1997	16842.0	11761.4	69.8
1998	16240.3	12420.0	76.5

Source: SYS, 1997; Shanghai Real Estate Market '1998.

From Table 7.24, we can see that 1993 was a turning point for housing commercialisation when the commercialisation rate increased sharply to 49.8% from 20.7% in 1992. This is mainly due to the devolution of power from the SMG to the level of sub-city government (district and county). In addition to the newly established Pudong New Area, the SMG administers 13 municipal districts and 6 suburban counties (see Figure 7.4). Despite this two and three level governmental

structure (in the case of counties, there is a governmental level of township), administrative powers were concentrated on the SMG.

Figure 7.4 The Administrative Division of Shanghai



Source: adapted from Yeung (1996: 6)

In order to speed up the pace of urban redevelopment, the SMG launched a series of devolution policies in April 1992, involving issues such as revenue and taxation, FDI, urban development, and management of construction projects (SEYEPA, 1993). In the case of land leasing, sub-city governments were empowered to approve land development projects with investment of US\$ 5 million and below. In addition, all projects involving the redevelopment of run-down areas were to be approved by sub-city governments. Furthermore, the sub-city governments could keep 85% of the income from land-leasing for the purpose of redeveloping dilapidated areas (SEYEPA, 1993).

These policies of devolution made sub-city governments enthusiastic to redevelop the dilapidated areas located in their districts. In 1992, the number of land lease soared to 201 from only 8 schemes in 1991 (SEYEPA, 1992, 1993). Among these 201 pieces of land, 95 were those leased for the purpose of redeveloping dilapidated areas (*ibid.*, 1993). According to plans, these 201 leased land had a total buildable area of 8.9 million square metres of which 3.5 million square metres were devoted to residential and 5.1 million square metres to office and hotel (*ibid.*, 1993: 72). The rapid increase of land lease, therefore, contributed greatly to the commercialisation of Shanghai's housing.

The opening up of the domestic housing market to foreign investors in late 1992 also helped quicken the pace of housing commercialisation. Shanghai's housing market was previously fragmented into internal and external markets. The internal market was monopolised by Chinese developers and only local residents were eligible to buy. Foreign developers were only allowed to engage in the external market where the buyers were confined to overseas Chinese and foreigners. In order to quicken the redevelopment of run-down areas, in December 1993 the SMG put forward a new policy whereby foreign investors were allowed to purchase old residential land (the right of use) and develop properties for the local market. In 1994, only 5 pieces of land were leased to foreign-funded enterprises (FFE) in 1994 to develop properties for the domestic market. This was increased to 39 in 1997 with a ground floor area of 826,000 square metres (Shanghai Real Estate Market '1998).

7.4.2 The establishment of the quasi-land market and leased-land based urban redevelopment

Alongside the establishment of housing market is that of land market. Housing markets and land markets are two sides of one coin. In theory, a housing market cannot be set up without the development of a land market. In accordance with the national reform process, the SMG adopted a gradual approach to establishing a land leasing market. First, while state work units still enjoyed the privilege of free land allocated administratively, foreign-funded enterprises (FEEs) were required to acquire the land use right through land leasing. The land lease scheme was initiated in 1988 (see Table 7.25). However, the pace of land leasing was initially very slow. In 4 years from 1988-1991, only 12 pieces of land were leased to the FEEs. The power devolution in 1992 which empowered sub-city governments to manage the leasing of land located in their districts dramatically quickened the pace of land leasing. In 1992, 205 pieces of land were leased to the FEEs with a total area of 20.7 million square metre (see Table 7.25).

Table 7.25 Land Lease in Shanghai: 1988-1998

	Total	1988-91	1992	1993	1994	1995	1996	1997	1998
Total									
No. of land lease	4581	12	205	254	623	497	764	1304	1326
Area of land leased (10 ⁴ m ²)	14503.6	980.4	2071.6	4961.1	1894.4	1203.5	898.3	1430.8	1063.7
Land leased to FFEs									
Number	1863	12	205	244	455	258	207	220	262
Land area	11436	908.4	2071.6	4914.9	1568.0	640.3	378.7	461.4	421.1
Land leased to FFEs for the internal property market									
Number	104	--	--	--	5	18	19	39	23
Land area	272.6	--	--	--	9.4	78.7	66.8	82.6	35.1
Land leased to domestic enterprises for 6 purposes*									
Number	1911	--	--	--	--	87	301	651	872
Land area	1377.1	--	--	--	--	70.0	246.2	522.8	538.1
Land leased to domestic enterprises in Pudong									
Number	703	--	--	10	163	134	113	114	169
Land	1417.7	--	--	46.2	316.9	414.6	206.6	364.0	69.5

Note: * refers to land leased to domestic enterprises for purpose of commercial, tourism, entertainment, finance, service and housing.

Source: Shanghai Real Estate Market '1999

In 1993, the SMG started to lease land to domestic enterprises in Pudong New Area. In 1994, 163 pieces of land were leased to domestic enterprises in Pudong. The

success of land leasing in Pudong encouraged the SMG to apply the policy of land lease to the whole city. From 1 January 1995, projects involving the land acquisition in six economic sectors including commercial, tourism, entertainment, social service and commercial housing had to acquire their land by the way of land leasing. This has been called land leasing for six purposes (*neizi lulei yongdi*). The policy was particularly designed for projects invested by SOEs which had so far still acquired the land through administrative channels. The policy resulted in a huge increase in land leasing. In 1995, 87 pieces of land were leased to domestic enterprises for the six purposes. In 1998, this figure increased sharply to 872 accounting for 65.8% of the total number of land leases.

Since the first land leases in 1988, the scale of land lease has been greatly extended, from FFEs only to both FFEs and domestic enterprises, and from Pudong to the whole city. By the end of 1998, a total of 4,581 pieces of land with an area of 145 million square metres (145 km²) had been leased. Considering that the urban core* of Shanghai covers no more than 400 km² and the leasing of land tends to be concentrated in the city centre, a quite high proportion of Shanghai's land has been put onto the market. However, this does not necessarily mean that all land parcels were leased at a full market price. In fact, 99 per cent of the land parcels were leased at non-market prices negotiated between the local government and developers while only 1 per cent went through a bidding process (Editorial Committee of China Real Estate Yearbook, 1997). The figure demonstrates the high levels of local government intervention, and thus the immaturity of Shanghai's commercial land market.

In China, for a company to lease a piece of land, it has to propose a project to the governmental department concerned (in Shanghai's case, the Planning Commission for domestic companies, and Foreign Investment Commission for FFEs). After the project is approved (*lixiang*), the company can then apply to the land authority for the permission of land lease. This method of leasing a piece of land has been known as "land for project" (*xiangmu yongdi*). In this way, land leasing is bound with the

* "Urban core" is not statistically used, it refers to the *de facto* urban built area. China's statistical system is administration-based. Therefore, statistically, Shanghai's urban area changes with the change of its administration division.

project that will be based on the leased land. In other words, land is leased for the purpose of the project.

Without exception, urban redevelopment projects are based on leased land and foreign investors have played an important role in Shanghai's urban redevelopment. Out of the total 4,581 pieces of land leased, 1,967 (43%) were leased to foreign investors. In terms of land area, some 117.1 km² land (80%) went to FFEs. Among these leased land, a high proportion of land was used for urban redevelopment projects. For example, in 1992, 95 out of 201 pieces of land were leased for the urban redevelopment of dilapidated areas, and all these land were leased by foreigners (SEYEPA, 1993)

Alongside the rapid increases of land leasing came a booming property market in Shanghai. In 1991, there were 94 real estate companies in Shanghai with total investment of RMB 759 million in commercial housing. In 1996, the number of real estate companies increased to 3,282 with total investment in commercial housing reaching an astonishing RMB 45,479 million. Foreign funded firms have become a major player in the local real estate industry. By the end of 1996, real estate companies in Shanghai had a total net value (deducting debt) of RMB 55.37 billion, of which foreign invested companies accounted for 28.3% or RMB 15.67 billion (Wu, 1999).

7.4.3 The emergence of new urban patterns

The establishment of the land market and the rapid development of Shanghai's real estate industry have had significant impacts on Shanghai's spatial structure. Firstly, the mixed land use pattern has been transformed into a more differentiated pattern of land use in accordance with the market. Commercial housing was built under new land development methods such as comprehensive development and later real estate company-led, market-based developments (see Chapter 6). Unlike the "specific project" developments whereby the support services such as housing were regarded as an attachment to the project and was usually built adjacent to the factory, new development methods built housing in clusters composing residential areas which

were differentiated from industrial areas and which were usually located in the edge of the central city where tracts of land were available.

The housing commercialisation rate of 76.5% in 1998 indicated that the market-based method had become the dominant form for urban land development and a land market or at least the quasi land market had been established in Shanghai. Once the market forces were unleashed, the “invisible hand” started to transform Shanghai’s land use pattern according to its own rules. The government’s policy of relocating industry and of redeveloping the run-down areas greatly speeded up the process of transformation. As a result, Shanghai’s urban landscape became increasingly similar to that of western cities based on the rent gradient. This rapid transformation has been illustrated by the fact that hundreds of factories and hundreds of thousands of people has been moved to the fringe area. Indeed, as shown in Table 7.26, the relocation was such that 1980s saw the upsurge of suburbanisation in Shanghai.

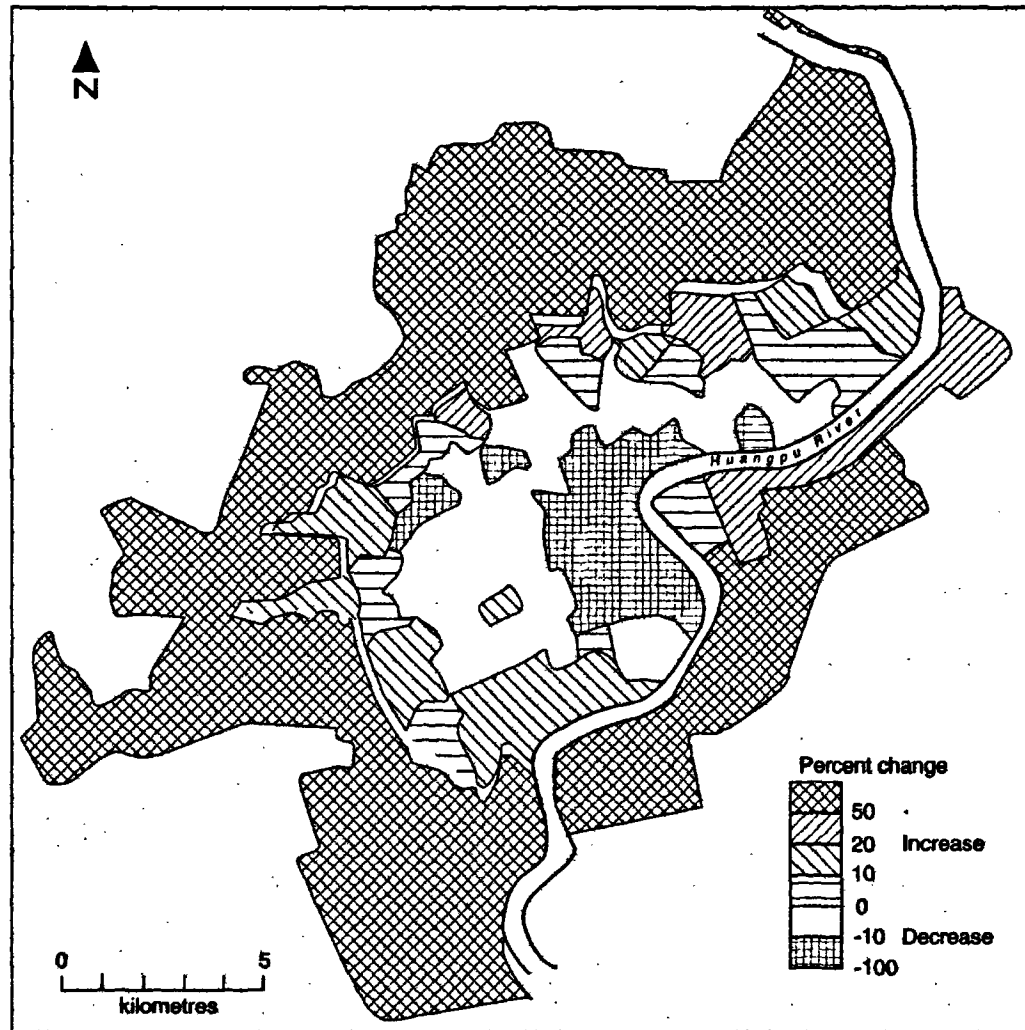
Table 7.26 Population Changes in the Core and Fringe Areas of Shanghai (unit: million)

Year	Core area	Fringe area	Total
1949	4.143	—	4.143
1982	4.520	1.964	6.493
1990	4.365	3.032	7.397

Source: Ning and Yan (1995: 591)

If the densely built-up area of 1949 is seen as the core area of Shanghai, and the area built up after 1949 as the fringe area, then we can see that the populations of both the core and the fringe areas increased prior to 1982. This trend indicates that Shanghai had experienced a period of “urbanisation” during the period 1949-1982. Since 1982, however, the population of the core area has declined absolutely, while the population in the fringe area has continued to increase. Between 1982 and 1990, the population of the core area decreased by 3.43%, from 4.52 million to 4.365 million, whereas that of the fringe area increased by 54.4%, from 1.964 million to 3.032. Figure 7.5 shows the population changes in Shanghai proper from 1982-1990. Apart from some small pieces that had population increases, most of core area lost population significantly.

Figure 7.5 Population Changes in Central Areas of Shanghai: 1982-1990



Source: adapted from Ning and Yan (1995: 591)

While in the west suburbanisation results from the exodus of people who want to escape from run-down urban areas, the Chinese version of suburbanisation is mainly driven by the relocation of industry and the redevelopment of dilapidated areas, both of which are led by the government which is keen to generate a new urban image. Although the relocation normally means more living space for the displaced, many of them are reluctant to move out of the central city where the urban amenities tend to be more developed than in the relocation areas. In spite of people's reluctance, this government-led suburbanisation is rapid and relentless, and with sub-city governments empowered to manage the land leasing in 1992, it has been greatly intensified in 1990s.

In the twelve years from 1979-90, a total 4 million sq. m. of old residential housing most of which were dangerous dwellings and simple shelters were dismantled, and with it 120,000 households were relocated (Gu and Liu, 1997). This government-led relocation scheme* has been greatly speeded up since 1992 when sub-city governments were given great incentives to redevelop the dilapidated areas by land leasing.

As shown in Table 7.27, a great leap occurred in 1993 when the amount of housing demolished increased from 1419 thousand sq. m. in 1992 to 3648.8 thousand sq. m., and the relocation of household rose from 38,200 to 86,600. Throughout the 1990s (1991-98), some 23.3 million sq. m. of housing were demolished with over half million households relocated. Given the average figure of 2.8 persons per household (SYS, 1998: 26), in 8 years from 1991-98, some one and half million people were relocated. Considering the overwhelming majority of relocation occurred in the city proper which has a population of around 10 million, it is fair to say that about 15% of the city population have been resettled in the 1990s. Such a scale of relocation in such a short period is unrivalled in China and even unprecedented in the world urban development history. It probably can only happen in this special context, i.e., the strong entrepreneurial and ruthless local government made by China's "half way house" reform and together with the immense penetration of global capital.

Table 7.27 Housing Demolition in Shanghai: 1991-1998

	Housing demolished (1,000 m ²)	Households relocated (1,000)
1991 ¹	296.9	8
1992	1419.0	38.2
1993	3648.8	86.6
1994	3815.4	92.8
1995	3179.0	74.6
1996	3843.3	86.5
1997	3682.5	69.5
1998	3440.0	75.0
Total	23270.9	531.2

Note: ¹ from August to December.

Source: Gu and Liu (1997); Shanghai Economic Yearbook, 1998, 1999.

* World Bank (1994) called this government-led relocation scheme as "Involuntary Settlement"

With the moving out of industries comes in the service sectors and with relocation of working class people the urban white collar. In the place of factories and run-down areas, modern, stylish office buildings and luxury housing sprouted. Six prestigious areas for office buildings have emerged in Shanghai (see Figure 7.6):

1. Lujiazui Central Finance District: As SMG's pet project, it is built on the area completely cleared by the government. By 1999, 16 brand new high-rise buildings have been completed. According to its master plan, by the time of completion, there will be a total floor space of 4.18 million sq. m., 75% of which will be the office and hotel buildings. As a Chinese version of La Defense, it is going to be Shanghai's biggest area for prime office buildings with state-of-art telecommunication facility and other urban infrastructure (China Real Estate Market, 1997).

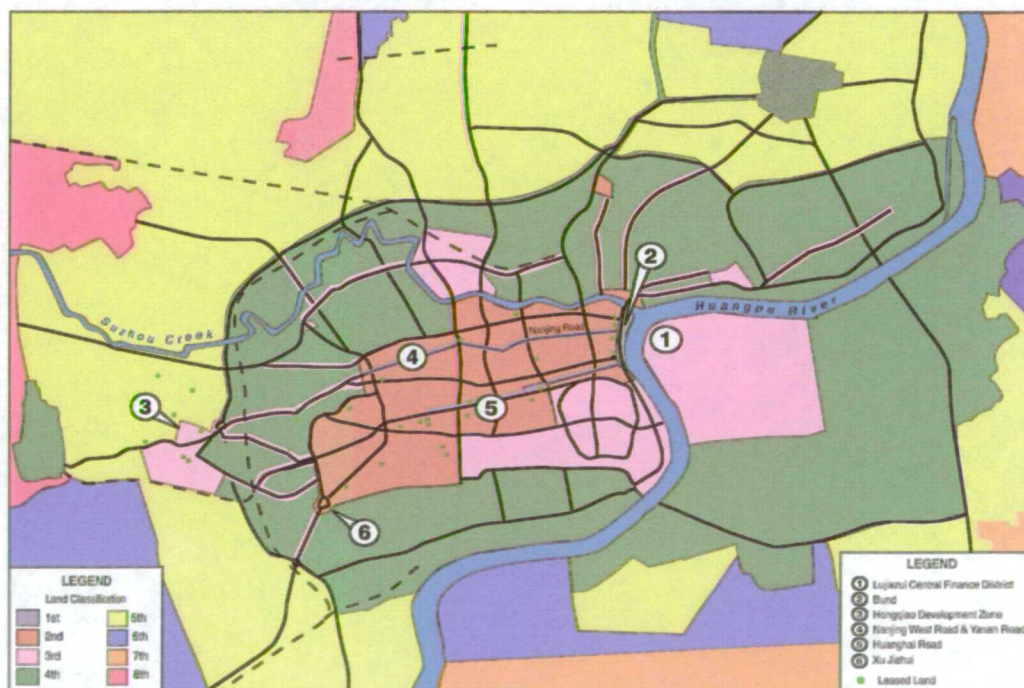
2. Bund area: As China's most famous colonial waterfront, the Bund was historically the major producer service complex in the Far East, where hundreds foreign financial institutions were concentrated. In 1995, the SMG launched a relocation programme to try to restore its historic glory. Since then, dozens of government departments and public sectors including the SMG itself that occupied those prestigious buildings after the communists came to power have been relocated, while several hundred financial organisations, some of which, interestingly enough, used to be located in the Bund like AIA, ABN AMRO, have moved in (Shanghai Real Estate Market '1999). Under the strong intervention from the SMG, it has become Shanghai's financial centre again.

3. Hongqiao Development Zone: Built in early 1990s, it is Shanghai's first office building complex. Close to the airport, it was then Shanghai's most popular Grade A office building area. It is now the most mature office building area in Shanghai with a very developed business support industries such as hotels, shopping malls, restaurants and the like. Having Shanghai's most luxurious residential area – Gubei New Area located in a walking distance, it has become one of the most prosperous areas in Shanghai.

4. Nanjing West Road and Yanan Road: This office building area was developed surrounding Shanghai's top international hotels such as Portman Ritz Carlton, Hilton and J.C. Mandarin. The Shanghai Centre, a vast multi-use complex comprising 472 luxury apartments, 25,000 sq. m. of prime office space, a theatre, a trademark exhibition atrium and a deluxe 5 star hotel, is the most famous office building in this area, particularly within American companies. Managed by a foreign company, it has the most expensive rent in Shanghai, US\$ 80 per sq. m. per month in 1996 (China Real Estate Market, 1997)

5. Huanghai Road and Xu Jiahui: Located in the former French Concession, it was historically a luxury area for the "high society" in colonial Shanghai. It is still regarded as the area with the most delicate western taste. Served by Shanghai's first underground line, it is one of the most accessible areas and has become a popular area for office buildings.

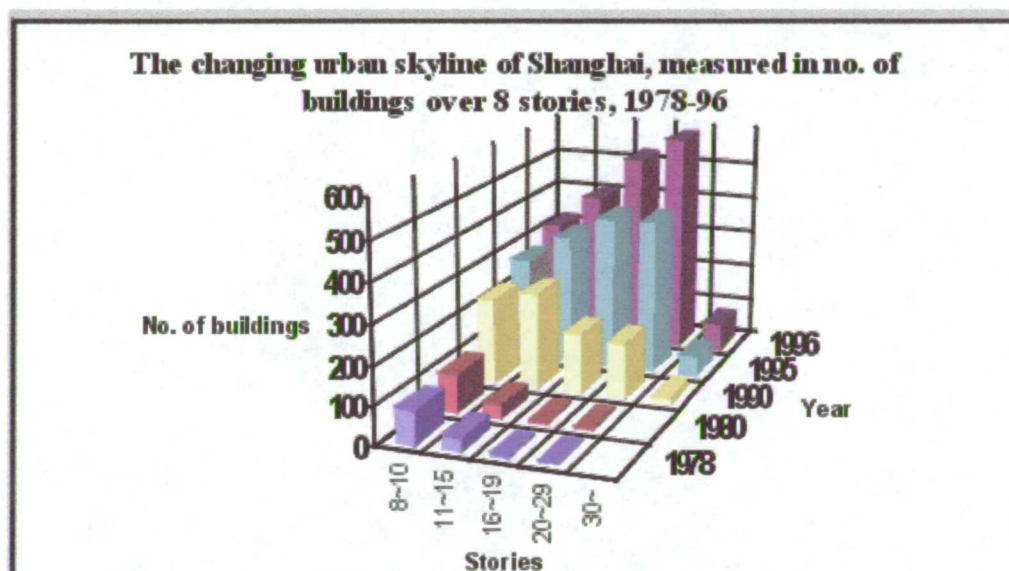
Figure 7.6 Six Prestigious Areas for Office Buildings in Shanghai



Source: adapted from Shanghai Real Estate Market '1997.

Apart from the horizontal reshaping of spatial structure, Shanghai's skyline has changed rapidly as well. Before reform, skyscrapers were rare in Shanghai. The 24-

stories Park Hotel built in the 1920s dominated Shanghai's skyline for nearly 60 years. Throughout the 1980s and particularly after the 1993-95 property boom, hundreds of new high-rises sprang up around the city. It now has Asia's tallest TV tower and one of the tallest buildings in the world – 88-stories Jinmao Building. In 1996, there were 733 buildings over 20 stories with over 11.62 million sq. m. floor space. The following Figure 7.7 shows this astonishing change in the urban skyline of Shanghai from 1978 to 96, measured in the number of buildings over 8 stories (Wu, forthcoming).



Source: Wu (forthcoming)

7.5 Social restratification of Shanghai

Shanghai's economic and spatial restructuring has been accompanied by dramatic changes in city's social structure. Two decades of market-oriented reforms have made people richer. The city's average per capita GDP increased dramatically from RMB 2738 in 1980 to RMB 25750 in 1997. In terms of comparable prices, Shanghai's per capita GDP in 1997 almost quadrupled from 1980 (SSB, 1998).

However, during this period, Shanghai was also dramatically socially restratified. Unlike the pre-reform era when society enjoyed the economic equality entailed by socialist ideology, income inequality has been widening since the reforms, particularly after Shanghai's market-oriented reform was speeded up in 1990. Table 7.28 shows Shanghai's growing gap between the richest and the poorest, measured by the ratio of the highest income (the tenth decile) to the lowest income (the first decile). In 1990, per capita annual income was RMB 1404 for the first decile and RMB 3468 for the tenth decile. While the former's income increased by 2.9 times to RMB 4097, the latter's income increased by 4.6 times to RMB 16042. Consequently, the ratio of the highest income to the lowest income rose steadily from 2.5 in 1990 to 3.9 in 1997.

Table 7.28 The Growth of Income Inequality in Shanghai: 1990-1997 (unit: Yuan)

	Lowest income (first decile)	Highest income (tenth decile)	Highest income / lowest income
1990	1404	3468	2.5
1991	1536	4186	2.7
1992	1785	5044	2.8
1993	2334	7567	3.2
1994	2986	11630	3.9
1995	3507	13838	3.9
1996	4027	15725	3.9
1997	4097	16042	3.9

Source: SYS, 1998.

It is worth noting that the statistics in Table 7.28 covered only the urban households – those that are officially registered residents. Non-local people including foreigners, people from Hong Kong, Macao and Taiwan, most of whom are members of highly paid “transnational elite”, and the badly paid floating population were excluded from the statistics. Therefore, real income inequality would be much higher than that shown in the Table 7.28.

The fundamental force underpinning the process of social restratification comes from the reform policy which gradually replaced the socialist egalitarianism. “To be rich is glorious” and “Let some get rich first” are probably Deng Xiaoping's most popular slogans in China. Power decentralisation, the introduction of economic incentive in SOEs, particularly the reform of the wage system whereby the enterprises got more

discretion about income distribution and the monetization of the social benefits such as the housing commercialisation and so on, all contributed to the growing income inequality which eventually led to the social restratification.

Surveys* conducted by research team from the Institute of Economics, Chinese Academy of Social Sciences in 1988 and 1995 found that the most important factor affecting urban income distribution in China as a whole has been the systematic transition from income distribution in kind in the planned economy to income distribution in cash in the market economy.

Table 7.29 Urban Household Income Inequality and Its Sources in China

	1988			1995		
	(1)	(2)	(3)	(1)	(2)	(3)
Cash income of workers (wages, etc.)	44.2	0.178	33.9	64.04	0.244	52.80
Cash income of retirees	6.83	0.335	9.8	12.69	0.303	12.99
Income of non-workers	0.47	0.433	0.9	—	—	—
Subsidies and incomes in kind						
Ration coupon subsidy	5.26	0.13	2.9	—	—	—
Housing subsidy in kind	18.14	0.311	24.2	9.61	0.495	16.07
Other net subsidies and income in kind	15.68	0.208	14	1.19	0.259	1.04
Rental value of owner-occupied housing	3.9	0.338	5.7	7.51	0.413	10.47
Income from private/individual enterprises	0.74	0.413	1.3	0.72	0.175	0.42
Income from property	0.49	0.437	0.9	1.34	0.490	2.20
Other (private transfers, etc.)	4.06	0.377	6.6	2.92	0.362	3.57
Total income	100	0.233	100	100	0.296	100

Source: Zhang (1997)

Note: (1): The income share of the *i*th component.

(2): The index of inequality in the distribution of the *i*th source of income. For total income it shows the Gini coefficient. For the other rows it shows the concentration ratio, of the corresponding income source.

(3): The percentage of total inequality contributed by the *i*th source of income.

Table 7.29 shows that: 1) The urban population's income components have changed greatly. While subsidies and incomes in kind accounted for around 39.1% people's total incomes and cash income 44.2% in 1988, the share of the former plummeted to

* An extensive survey of 20,000 urban and rural households was conducted in 1988 under the sponsorship of the Ford Foundation, and another survey, this time of 15,000 households, was carried out in 1995 with the support of the Ford Foundation and the Asia Development Bank (Zhang, 1997)

10.8% and the latter rose sharply to 64% in 1995. 2) The most important factor behind the growing gaps in urban incomes has been the rise in incomes from employment from 33.9% in 1988 to 52.9% in 1995, a jump of 19 percentage points. 3) The impact of subsidies on income disparity was significantly dampened. The total contribution of various subsidies to income inequality was 41.1% in 1988. By 1995, it had dropped by about 22 percentage points. Urban incomes are depending more and more on the market, rather than on the methods of distribution that were more common in the past, such as planned distribution or in-kind distribution.

While the same trend can be found in Shanghai (Lu, 1997), I would like to analyse this growing gap from point of view of economic restructuring discussed earlier in this chapter. In other words, I try to find out how the economic restructuring increasingly fuelled by FDI contributed to the income inequality that led to Shanghai's social restratification.

First, the restructuring of Shanghai's economic base, particularly the rise of non-state sector is a major factor behind the growing income inequality. One of the first groups to get rich were the self-employed who set up their own small business such as stalls in the street markets and groceries. At the time when the income distribution in SOEs was still dominated by socialist egalitarianism with negligible differences between workers and managers, non-state enterprises like foreign invested operated fully in accordance with the rule of the market. Having few subsidies in kind, the employee's income depended on their performances and the profits they made. The income gap between the managerial stratum and the workers was much wider than that in SOEs.

With the rapid expansion of the non-state sector, employment in the non-state sector soared. In 1997, the number of people employed in the non-state sector increased from almost nil in late 1970s to 712,500, accounting for 16.4% of total staff and workers employed in Shanghai's economic units. In areas such as manufacturing industry that were opened up earlier to the foreign investors, the share of the employment in non-state sectors has increased even more rapidly. As shown in Table 7.11, non-state sectors employed 34.3% of total workers in Shanghai's industry in 1997 compared with the 1.3% in 1980, while SOEs' share in number of workers declined to 34.7% from 69.8% in 1980. As in the west, managers and professionals

in these non-state sectors can earn as much as ten times what the workers and staff earn. This managerial stratum, even in a small proportion, say 5%, comes to form the upper end of income spectrum. With the reform of SOEs deepening, growing number of SOEs have adopted a salary system similar to that in non-state sectors and, as such, the disparity between managers and workers has been getting wider. More and more managers in SOEs have entered the high income category.

Second, the transformation of Shanghai's economic sectoral structure, particularly the rapid rise of producer services strengthened further the tendency of income polarisation. The polarisation of income is a common phenomenon in global cities resulting from the shift to service economy with producer services at the core (Sassen, 1991). Although the recent rise of producer services in Shanghai's economic structure can not be understood in the same sense, it does make a significant contribution to the income polarisation. Due to the unavailability of statistics*, it is not possible to get a full picture of the extent the rise of producer services has polarised people's income. But it is clear that the producer services, particularly the FIRE sectors have been the most highly paid jobs and the people working in these sectors are young, high-educated, and quite a lot of them are bilingual (Mandarin and English). Statistics also show that most of the top highly paid sectors are producer services (Table 7.30).

Table 7.30 Shanghai's Top Ten Highly Paid Sectors in 1997 (unit: Yuan)

	Average annual wages of staff and workers
Finance and insurance	21507
Information and consultant services	19456
Business brokerage	18412
Power, gas and water production and supply	16789
Radio, film and television	16734
Real estate	15540
Culture and art	14774
Excavation	14694
Transportation, storage, postal and telecommunication	13608
Government institution, party and social organisation	13608
City-wide average	11425

Source: SYS, 1998.

* In Chinese statistical system, the income data is collected by economic sectors rather than occupations.

In 1997, only 2 sectors from industry were registered into the top ten sectors in terms of average annual wages of staff and workers, and the other 8 sectors were all from service sectors. The top three sectors – financial insurance (21507), information and consultant services (19456) and business brokerage (18412) were typical producer services.

Attracted by the high pay, people particularly graduates have flocked into these producer services and Shanghai has experienced a rapid growth of the white collar population in its workforce in the past two decades. In early 1990s, one of the most talked topics in local mass media was the “white collar phenomenon”. A survey conducted by KC Consulting International Inc., a joint venture between Fudan University and Koo & Chow Company of US, in 1994 gave an estimated 1.5 million white collar workers which accounted for about 40% of Shanghai’s total employment, up from 29.8% in 1982 and 36.2% in 1990 (Shanghai Star*, 23 September 1994). The survey also predicted a rapid increase of 1.5 million in the next 6 years making a total 3 million white collar workers in 2000.

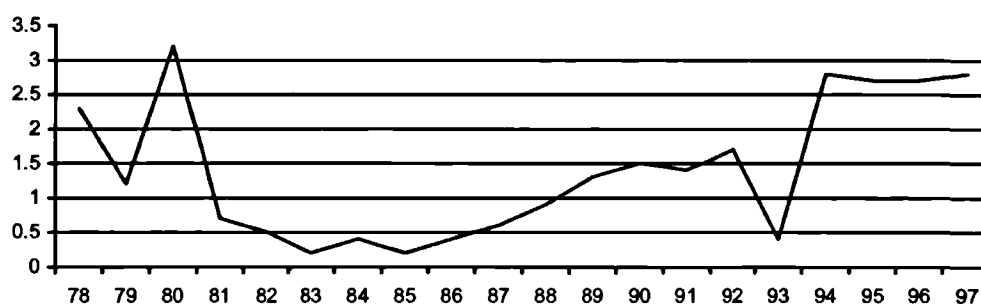
While economic restructuring led to the upsurge of white collar population from which the upper end of social stratum emerged, it also resulted in the downgrading of some of the traditional industries which contributed to the rapid growth of unemployment. The reform broke down the “iron rice bowl” system in which people had a job for life and enterprises had no right to sack the employee. However, unemployment was still unusual throughout 1980s, because of the complexity of the issue which, like the housing commercialisation, could not be carried out without the reform of other associated institutions which was proceeding at a relatively slow pace in Shanghai in 1980s. With the speeding up of reform and particularly of its economic restructuring, Shanghai’s unemployment rate started to rise and its pace picked up in 1990s.

As Figure 7.6 shows, Shanghai’s unemployment rates in the late 1970s were relatively high. This was due to the sudden return of the hundreds of thousands of people sent down to the countryside during the culture revolution period and it was

* A local English newspaper.

quickly sorted out by the government. Throughout 1980s unemployment rates were mainly kept under 1 per cent. The unemployment rate started to rise in late 1980s and in 1993 it jumped to 2.4% from the previous 1.7% (SSB, various years). During this period, some traditional labour-intensive industries such as textiles suffered the most due to the rapid economic restructuring involved. The textile industry used to be a major sector in Shanghai's industry accounting for 20% of industrial SOEs' turnout in its heyday. With the opening up of the market and inflow of the efficient technology-intensive FDI enterprises, the local textile industry lost ground quickly. From 1990-95, the number of textile SOEs plummeted from 500 to 180, production capacity contracted by 30%, and the number of employees halved, dropping from 0.55 million to 0.28 million (Textile Union, 1998).

Figure 7.8 The Unemployment Rate in Shanghai: 1978-1997



Source: SYS (1998).

The official unemployment rate, though accelerating in 1990s, is very much underestimated due to the exclusion of the “laid-off workers” in SOEs. The “laid-off workers” refers to employees in SOEs who are made redundant but still keep their labour contract with the enterprises. This “laid-off” phenomenon is the relic of the implicit unemployment that was pervasive in a socialist economy that claimed there were no jobless people in its society. The market-oriented reforms have made the implicit unemployment explicit. However, due to the incremental approach to the reforms, SOEs are still held the obligation to take care of their workers even they are made redundant. Indeed, the “laid-off” phenomenon is a compromise between the resilient planned economy and growing market forces. With the acceleration of the

SOE reforms, the population of “laid-off workers” increased dramatically outpacing the increase of unemployment. In 1995, there were 368,000 “laid-off workers” in Shanghai accounting for 8.1% of total employment in urban areas while the official number of unemployment was 143,600 (2.7%) (S. Wu, 1997). In other words, Shanghai’s real unemployment rate has been more than 10% in recent years.

Even this figure is heavily underestimated if we take the floating population into account. Floating population here refers to non-local people who move to Shanghai for whatever reasons. The majority of them are peasants from backward interior provinces coming to seek jobs in Shanghai. According to China’s statistics system, the floating population is not included in Shanghai’s statistics despite its vast number. The floating population is a new phenomenon stemming from China’s reform. In the past, peasants were confined to the farm land by the government and under the strict resident registration system the spontaneous moving of people on a large scale was rare. The reforms gradually unleashed the vast population of peasants. Attracted by job prospects, more and more peasants flocked to China’s coast region areas which have been economically way ahead of the central and west China. This economic-oriented domestic migration started in early 1980s and reached its culmination in early 1990s (Wang, 1995). Although no official statistic is available, it is widely accepted that there are some 80 million floating population in China.

The SMG has conducted six surveys on floating population. These surveys show that the floating population has increased dramatically from 0.5 million in 1982, reaching a peak of 2.81 million in 1993. The last survey conducted in September 1997 gave a figure of 2.76 million floating population indicating a stable tendency since 1993 (Shanghai Economic Yearbook, 1998). Of those 2.76 million people 74.5 per cent were those who had come to seek a job. Unsurprisingly, the majority of them had a very limited education background.

As shown in Table 7.31, 78% of those who came to Shanghai for economic reason had education of junior and primary school and 5.7 per cent are illiterate and semi-literate. According to the 1993 survey, 84.5% of the floating population working in Shanghai used to be peasants in their home (Wang, 1995). With such an educational and occupational background, the jobs available to them are normally unskilled

physical ones that are shunned by the local people. Excluded from the social welfare that applies only to officially registered residents, more often than not, they found themselves working in low paid jobs such as cleaner, waiter waitress and manual labour on construction sites. Even for the same job in the same factory they are discriminatorily treated. It is quite usual that a non-local worker earns half of what his/her local colleague earns. 1997 survey shows that the average annual wage of floating population in Shanghai was RMB 7812, far below Shanghai's average level of RMB 11425 (Wang, 1995). Not able to afford the high rent in the central city, in 1993 65.4% of the floating population lived in the urban fringe area, and 16.2 % lived in a temporary shed (ibid.). It is the floating population, economically deprived, socially and spatially excluded from the local society, that make up the bottom of Shanghai's social stratum.

Table 7.31 Education Background of Economic Immigrants to Shanghai in 1997

	% of total
Tertiary education and above	4.4
Senior school	11.9
Junior and primary school	78.0
Illiterate and semi-literate	5.7

Source: Shanghai Economic Yearbook (SEY), 1998.

Partly because of the lack of statistics, partly because of the sensitive issues involved, social stratification is one of the areas less explored in Shanghai's recent urban development. However, as the above analysis shows, there is enough evidence that Shanghai's society has been increasingly stratified since the reform. Due to China's gradual reform, Shanghai's local private capital, though growing rapidly in 1990s, is still in a fledgling stage. The capital role has been mainly fulfilled by investors from Hong Kong, Macao, Taiwan and other countries, which are viewed as the global capital playing with the SMG representing the interests of SOE in the local market. Interestingly, therefore, both ends of the social spectrum, the richest and the poorest, are outsiders. The global capitalists embodied by the expatriates and overseas Chinese who assume the managerial positions in the thousands of Shanghai's foreign invested enterprises occupy the upper end of Shanghai society, while the floating population occupy the bottom. Taking away these two groups, we have a picture that the official statistics present, i.e., a less polarised Shanghai. However, even this

“official Shanghai” has been increasingly polarised. On the one hand, with the rise of producer services, more and more local people have been professionalised and as such shifted upwards along the social ladder. On the other hand, we found an increasing number of the laid-off workers slipping downwards to the bottom of the social spectrum.

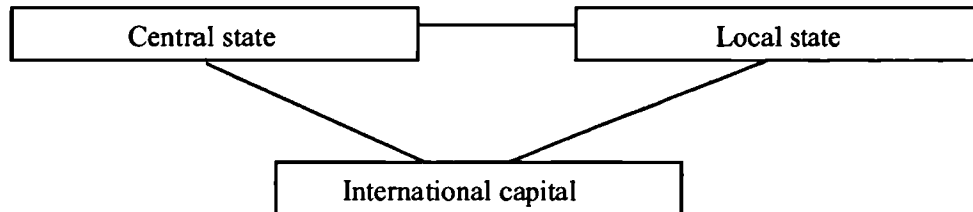
7.6 The emergence of a new state-capital relationship

The reform policy adopted by the Chinese government in December 1978 started a new era for Shanghai. Shanghai’s relation to the central government as well as the world economy has since been dramatically changed. With the marketisation and decentralisation entailed by the reforms, the municipal government regained a relatively significant autonomy from the central state. With its opening up to the world economy, transnational capital came back to Shanghai again.

China’s reform led by the central government unfolded gradually, however. Shanghai’s urban development did not speed up drastically until 1990 when the central government launched the development of Pudong (East Shanghai), demonstrating its determination to revitalise Shanghai into a world class city as it was in 1920s and 1930s. Seeing Shanghai as the gateway to the huge Chinese market as it always is, foreign direct investment poured in and greatly changed Shanghai’s urban structure, economically, spatially and to a less extent socially. In 1996, the share of foreign-funded firm’s gross output value in Shanghai’s industry reached 34.8% of the total, while the share of the state-owned enterprises, which had once dominated, dropped drastically to 38.8%. Compared with transnational capital which has become a major player in Shanghai’s urban development, internal private capital, although unleashed gradually by the government, still plays a minor role.

To sum up, we have seen, from the analysis of Chapter 6 and Chapter 7, the emergence of a new state-capital relationship since 1978. In this post-Socialist period, the municipal government has emerged as a key player in Shanghai’s urban development, and in the side of capital, we see the comeback of international capital

as an important actor in shaping Shanghai's urban patterns. Thus, his new state-capital relationship that has been underlying Shanghai's current urban restructuring can be depicted as following:



This chapter has shown that under this new state-capital relationship, Shanghai's urban structure has been dramatically transformed in terms of its economic base, spatial morphology and social fabric since 1978 and particularly since 1990. This new state-capital relationship assumed a special form -- the pro-growth coalition between the local state and international capital -- in Shanghai's urban redevelopment projects that have taken place in the number of hundreds during the 1990s. The next chapter will examine the formation of this pro-growth coalition by focusing on the case of the redevelopment of Lujiazui Central Finance District -- the pet project of the SMG.

Chapter 8

DEVELOPMENT OF LUJIAZUI CENTRAL FINANCE DISTRICT: THE FORMATION OF A PROJECT-BASED PRO-GROWTH COALITION

8.1 Introduction

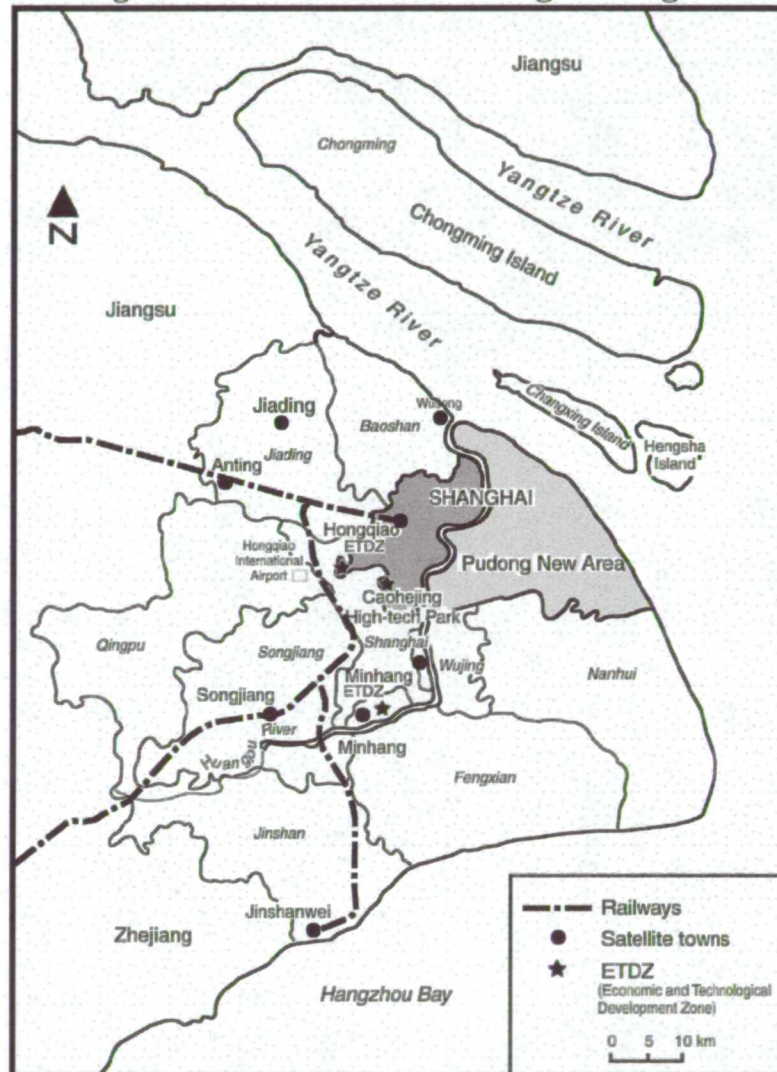
The chapter examines the roles of the central government, the local government and international capital in the development of the LCFD. It focuses particularly on the interaction of local government and international capital, and the process of formation of a pro-growth coalition between them. Drawing on interviews, the chapter shows that patterns of engagements between the local government and foreign investors can be characterised by a process of learning. When both learn there is an interest convergence in such urban redevelopment project as the development of LCFD, they can work together and form what can be called a project-based, implicit pro-growth coalition. It is this pro-growth coalition, which underlay hundreds of redevelopment projects across Shanghai in 1990s, that has been reshaping Shanghai's urban patterns.

8.2 Pudong and the Lujiazui Central Finance District (LCFD)

Pudong was originally a geographical concept referring to a triangular area to the east of the Huangpu River. Although it is immediately opposite the Bund and its areas alongside the river administratively belonged to city districts, it was long regarded by local people as a countryside area composed of farm land, low density industry and associated residential areas. It was designated Pudong New Area – an administrative district under SMG in early 1990s after the development of Pudong was officially

launched. Pudong New Area was initially 350 km² in size and later expanded to incorporate 522 km² (1.5 times the size of urban Shanghai) (see Figure 8.1).

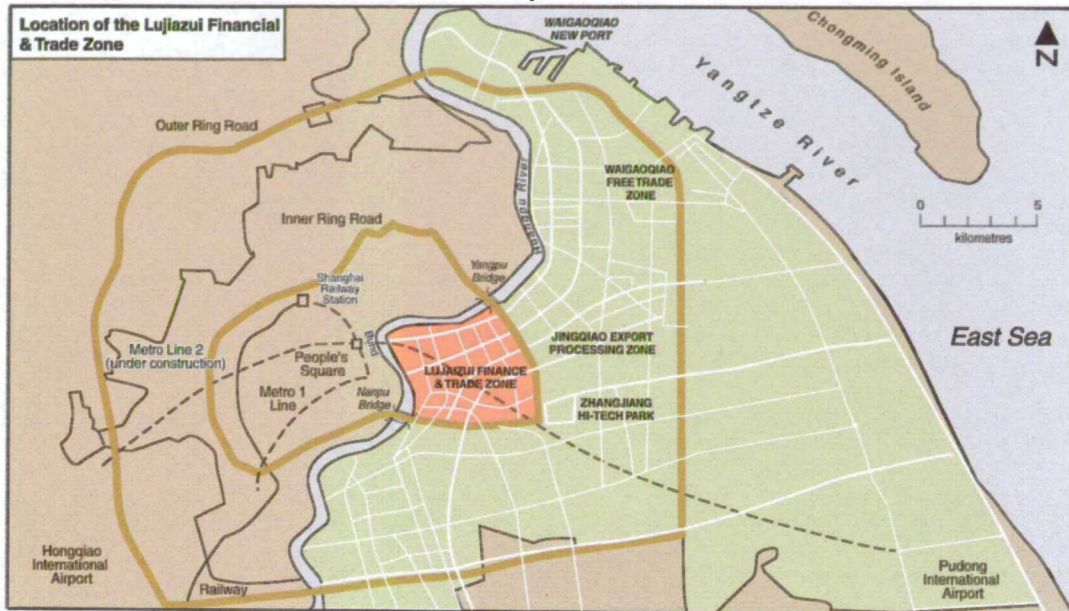
Figure 8.1 The Location of Pudong in Shanghai



Source: adapted from Yeh (1996: 280)

Within such a large area, there are four special development zones: Waigaoqiao Free Trade Zone, the Jinqiao Export-Processing Zone, the Lujiazui Financial and Trade Zone, and the Zhangjiang High-tech Park. The Lujiazui Financial and Trade Zone – the only one entitled “financial and trade zone” among the thousands of development zone set up in coastal China is the most important sub-area in Pudong (see Figure 8.2). It is planned to become the “international finance and trade centre in the 21st century” for China and

Figure 8.2 The Location of the Lujiazui Financial and Trade Zone



Source: adapted from <http://www.shld.com/brief/zone/zoneg.htm>

Figure 8.3 The Location of the Key Development Subzones of Lujiazui Finance & Trade Zone



Source: adapted from http://www.shld.com/brief/zone/function_g.htm

the whole Asia-Pacific region. While the whole zone is 28 km² in size, the main function of the financial and trade centre will be in one sub- zone, i.e. Lujiazui Central Finance District (LCFD) (see Figure 8.3). Immediately opposite to the colonial-era Bund, the LCFD covers an area of 1.7 sq. km with a planned total floor space of 4.2 million sq. m. As the most elaborately planned area in China, it is divided into 68 parcels of land where dozens of super high-rise towers will be located.

8.3 The role of the state and international capital in the development of Pudong

8.3.1 The changing attitude of the central government

As early as 1984, the SMG proposed the development of Pudong as one of strategies to revitalise Shanghai (Yeh, 1996). Up to 1990, although the SMG had been keen to translate the plan into reality, it failed to get the substantive support from the central government which was focusing on the development of the southern provinces. Without the endorsement of the central government, the Pudong project was stalemated in the planning and research stage and its influence scarcely reached beyond the city.

The Tiananmen crackdown of 1989, though pulling back China's reform policy, turned out to be the turning point for Shanghai's development. In its wake, Shanghai's Party Secretary Jiang Zeming was selected to take the position of General Secretary of the CCP when the Party leader Zhao Ziyang was purged. To shore up its political base in Beijing, Jiang recruited his former colleagues into the Central government, the most prominent of them was Zhu Rongji who was promoted to vice premier from Shanghai's Party Secretary in 1991 and later became premier. Long associated with Shanghai (Mayor 1985-1988, Party Secretary 1987-1989), Jiang was more sympathetic to Shanghai's appeal for the development of Pudong (Cheung, 1996).

In the aftermath of the Tiananmen tragedy, China faced the prospect of international isolation and the process of reform was halted. Similar to the opening of Guangdong and Fujian in 1979, China's paramount leader Deng Xiaoping attempted to use Shanghai to relaunch the economic reform process. By choosing Shanghai as the launching pad for the 1990s, he hoped that the wave of economic reform could be pushed from the Pearl Delta into the Yangzi Delta and spread further into the whole of China. Internationally, it was intended to demonstrate his determination to carry out the reform and open door policy. It was also argued that Deng contemplated using Shanghai to replace the increasingly recalcitrant Hong Kong (Cheung, 1996). Distrustful of Hong Kong due to its huge demonstrations of popular support for the democracy protests in Beijing, he believed that Shanghai would make a safer powerhouse for Chinese development, because it could be more easily controlled.

In sum, as China remains a unitary party-state, the top-down approach is still the most important way to open the doors for bold economic reform. Initiatives by the central government (more precisely the top leaders) play a decisive role in the development of mega-projects like the development of Pudong. The launch of development of Pudong New Area serves as an excellent example to show how politics, rather than simply economic considerations, have been the key to the city's future.

With the full support from the central government, the pace of reinvigorating Shanghai as a world class city, in which the development of Pudong was a core project, was dramatically quickened. On 18 April 1990, then Premier Li Peng officially declared the development of Pudong in Shanghai. Ten preferential policies for Pudong were announced on 30 April. Among these preferential policies, some such as the setting up of foreign bank branches, the operation of retailing activities of foreign enterprises and the establishment of Shanghai Stock Exchange were specially tailored and applicable only to Pudong. The central government's preference for Shanghai was further evidenced at the 14th Party Congress held in October 1992, in which Shanghai was designated as the "dragon head and three centres" to lead the Yangzi River Basin and China at large into the 21st century (*Report of the 14th Chinese Communist Party*

Congress, 1992). The three centres refer to Shanghai as an economic centre, a financial centre and a trading centre. In 1995, Pudong was given another package of incentives to further its development. In 1998, Pudong became the first place in China in which foreign banks were allowed to do RMB business with the foreign-invested enterprises (see Box 8.1).

**Box 8.1 – Major Preferential Policies for the Development of Pudong
Given by the Central Government**

- | | |
|------|--|
| 1990 | <ul style="list-style-type: none"> ● Income tax of foreign-invested enterprises is at a reduced rate of 15 per cent. Enterprises due to operate for 10 years or more are exempted from tax in the first two profit-making years and allow a 50 per cent reduction over the following three years. ● Foreign investors can remit their share of profits out of the country without paying the income tax. ● Foreign investors are allowed to invest in infrastructure projects. ● Foreign investors are allowed to engage in retail sales. ● Foreign banks are allowed to open foreign branches in Shanghai, including Pudong New Area. ● There will be a free trade zone in Pudong New Area. ● Land leasing will be for 50 to 70 years. Foreign investors may contract large tracts of land for development. ● Pudong New Area can keep the revenue for further development. |
| 1995 | <ul style="list-style-type: none"> ● Shanghai is allowed to issue construction bond worth 500 million RMB per year for Pudong. ● The Central government will arrange for Pudong per year: a loan of RMB 400 million; a loan of US\$ 300 million; a loan of RMB 300 million for technology upgrading; a state appropriation of RMB 300 million. ● Shanghai is allowed to issue an extra RMB 100 million A-share and US\$100 million B-share per year for the purpose of developing Pudong. |
| 1996 | <ul style="list-style-type: none"> ● Foreign banks are allowed for the operation on RMB business with the foreign-invested Enterprises in Pudong. |

Source: collected from various governmental documents.

8.3.2 The enthusiastic local government

Supported by the central government, the enthusiasm of the SMG for developing Pudong rapidly developed. First, it pumped in massive investment to build up the modern urban infrastructure. Ten major infrastructure projects for Pudong were constructed to improve the transport, communication and public facilities of the area (see Table 8.1). At a total cost of RMB 12.8 billion, these ten projects laid a foundation of a modern urban infrastructure in Pudong.

Table 8.1 The First Ten Major Infrastructure Projects in Pudong

Projects	Main feature	Construction period	Investment (10 ⁹ RMB)
Nangpu Bridge	Cross Huangpu River, six lanes, 5,346 meter long.	1988.12-1991.5	8.2
Yangpu Bridge	Cross Huanpu River, six lanes, 8,354 meter long.	1991.5-1993.10	11.5
Yanggao Road Expansion Project	Six lanes, 24.5 km long, designed speed: 80 km/h.	1992.1-1992.12	7.1
Waigaoqiao Deep Water Berths	Four 10,000 ton class deep water berths, annual handling capacity of 2.4 million tons	1991.7-1993.7	9.5
Waigaoqiao Power Plant (1 st phase)	1.2 million kw capacity.	Finished in 1996	56.8
Lingqiao Water Plant	200,000 tons daily water supply.	1993-1994.6	12.5
Sewage Treatment Project (1 st phase)	Covers 70.57 km ²	1988.8-1993	16
Telecommunica-tion Project	A net increase of 300,000 telephone lines.	Completed in 1992	0.12
Pudong Gas Works (2 nd phase)	An increase of 1,000,000 m ³ /day.	Completed in 1992	2.12
Inner Ring Road (Pudong section)	6 lanes, 7,000 meter long, designed speed: 80km/h.	1993.1-1993.11	4.6

Source: adapted from Association of Comprehensive Economics of Pudong New Area (ACEPNW) (1998).

This first round of ten projects was followed by a new round of massive infrastructure investment in mid-1990s (see Table 8.2). This second round was even more ambitious. The first phase of Pudong International Airport alone cost nearly RMB 11 billion. When it was opened to the landing of chartered planes flying in world CEOs for the "Fortune Shanghai: Global Forum" at the end of September 1999, Shanghai became the first Chinese city that has the two civil airports.

Table 8.2 The Second Round of Ten Major Infrastructure Projects in Pudong

Project	Main feature	Construction period	Investment (10 ⁹ RMB)
Pudong International Airport (1 st phase)	Capacity of 20 million passengers and 500,000 tons cargo per year.	1996-1999	109.7
Pudong International Information Port	State of art telecommunication centre.	N.A.	30
Pudong International Deep Water Harbour (1 st phase)	Capacity of 1.4 million TEU per year.	N.A.	46.6
Outer Ring Road (Pudong section)	100 metre wide and 50.17 km long	1996-	N.A.
No.2 Metro Line (1 st phase)	17.6 km long with the Pudong section about 7.9 km long.	Completed in 1999.	105
Pudong Light Railway Transit	25.4 km long, capacity of 64.23 million passengers per year.	1998.10-	21.94
Waigaoqiao Power Plant (2 nd phase)	A net increase of capacity of 1.8 million kw	1996-	1.7 billion USD
Sewage Treatment project (2 nd phase)	Treatment capacity of 3.69 million m ³ per day	1997-	N.A.
Crossing –Huangpu Pedestrian Tunnel	645 meter long	Completed in 1999	4.9
East China Sea Natural Gas Project	Capacity of 1.2 million m ³ per day.	N.A.	64.2

Source: adapted from ACEPNW (1998).

Apart from being a major investor, the SMG is also the organiser of the Pudong project. The Pudong government – Pudong New Area Administration (PNAA) was established in January 1993 and a vice-Mayor of Shanghai was appointed as the chairman of the Administration. Meanwhile, four development corporations were set up to co-ordinate infrastructure are land development, real estate and project investment, and the development and operation of services in the respective four major development zones. They were all capitalised and allocated land by the SMG in 1990 and 1991. The SMG and later together with the PNAA was keen to promote the Pudong project on the international stages in order to attract more international capital which was targeted to be one of the major financial resources for the development of Pudong.

8.3.3 Inflow of international capital

Needless to say, the cost of the Pudong project is enormous. It has been estimated that according to the government's three stage plan, by the time the whole project is complete, a minimum of US\$ 70-80 billion will be needed. The SMG hopes that at least

half of the total cost of developing Pudong will be covered by foreign investment flows (Sender, 1994: 56). Foreign investment has played an important role in Pudong's development. From 1990-1996, foreign investment in fixed asset investment amounted to 25.7 billion RMB, accounting for 19.7 percent of the total of RMB 130.4 billion (see Table 8.3).

Table 8.3 Fixed Asset Investment in Pudong by Resource: 1990-1996

	Investment (billion RMB)	Per cent (%)
State budget appropriate	1.6	1.2
Domestic loan	33.4	25.6
Foreign investment	25.7	19.7
Self-raised fund	51.9	39.8
Other	17.8	13.6

Source: ACEPNW (1998: 169)

What is more, while internal investment from the SMG and other provinces led the way initially, the share of the foreign investment has been increasing dramatically. In 1996, the foreign fixed asset investment reached 9.4 billion RMB (23.8%), up from 0.15 billion RMB (10.6%) in 1990 (ACEPNW, 1998).

International capital flows are of course profit-motivated. With its population of 1.3 billion, China is potentially one of the biggest markets that none of TNCs can afford to ignore. With its strategic location at the mouth of the Yangzi River Delta and its colonial past, Shanghai is always seen by overseas investors as a springboard to tap the vast market of China. In a survey of the investment environment conducted in 1994, by counting the frequencies of mention by the respondents, Nyaw Mee-Kan (1996: 256) found that "huge market potential in China" was the top motivating factor for investment in Shanghai, with the second motivating factor "lower wage levels of Shanghai workers" trailing by 21 points (see Table 8.4).

With the massive influx of capital, Pudong achieved exceptionally rapid economic growth. In 1990, Pudong's GDP was about RMB 6 billion, accounting for 8% of Shanghai's total GDP. By 1999, Pudong's GDP had increased dramatically to RMB 80

billion, accounting for 20% of Shanghai's total GDP (calculated from *Statistical Yearbook of Shanghai, 2000*).

Table 8.4 Motives for Investment in Shanghai (n = 81)

Motives/reasons	Frequencies of mention ¹	Ranking
Huge market potential in China	51	1
Lower wage levels of Shanghai workers	30	2
High technical skills of workers	25	3
High technological capabilities	25	3
Low recoupment period of investment	20	5
Being a Shanghainese	17	6
Convenience of transportation	16	7
Low price of raw materials	16	7
Quick access to information	16	7
Sound investment laws and regulations	15	8
Help in developing Shanghai	13	9
High efficiency of administrative bureau	13	9
Good factory facilities	11	10
Good infrastructure	8	11
Ease of raising funds	3	12
Low investment fees	2	13

Note: ¹ Respondents may choose more than one reason.

Source: Nyaw Mee-Kan (1996: 256).

The transformation of Pudong's landscape was even more astonishing. Taken in 1990, 1996 and 2000 respectively from the same angle, Picture 8.1, 8.2, 8.3 show the process of Pudong's striking landscape transition*. In 1990 (see the picture 8.1), Shanghai's landscape was dominated by the western-style buildings located in the Bund (the near side of the Huangpu River), and Pudong (the far side of the river) was an area of flat land with few high buildings. Ten years later, a completely new landscape with dozens of super high-rising buildings has emerged in Pudong (see the picture 8.3). The Bund has been dwarfed by the soaring buildings located in the LCFD where we can see the 468-metre-high Oriental TV Tower (the world third tallest TV tower) and the American-style 88-storey Jin Mao Building (the world third tallest building). Taken inside the LCFD, Picture 8.4 shows an astonishing resemblance to American big cities. No visitors

* Unless otherwise stated, all pictures are courtesy of Mr. Yao Jiangliang, a photography in the Shanghai Lujiazui Finance and Trade Zone Development (Group) Co., Ltd.

Picture 8.1 Pudong Seen From the Bund, 1990



Picture 8.2 Pudong Seen From the Bund, 1996



Picture 8.3 Pudong Seen From the Bund, 2000



Picture 8.4 “New York in the Making” – LCFD, 2000



to Shanghai would not be impressed by its rapid landscape transition in such a short period of time.

Such a rapid development would have been impossible without joint efforts made by the three major actors - the central government, the SMG and international capital. With different motivations, these three major actors play their respective roles in the development of Pudong. The Pudong project is one endorsed by the central government, organised by the SMG and increasingly driven by international capital. In the process of developing Pudong, an intriguing phenomenon is that the SMG and international capital that is represented by foreign investors have formed an interactive relationship in which, as the following section will show, both sides have been learning how to deal with each other.

8.4 The interactive relationship between international capital and local state

One thing that China's reform and open door policies have brought about is a changing behaviour pattern of the Chinese government at both the central and the local level. With the deepening of reform, the Chinese government has increasingly realised that government itself needed to be changed in order to deal properly with foreign investors. For communist cadres, the reform brought them the first opportunity in 30 years to deal face to face with international capital which had been regarded as toxic to socialism. It took a great deal of time and efforts for the bureaucratic system to adjust itself to the coming of international capital. The case of the establishment of the Shanghai Foreign Investment Working Commission (SFIWC) on 10 June 1988 shows how the local government learned to adjust itself to cater to foreign investment which has become increasingly important for the city's development.

In the beginning, foreign investors had to go through a daunting bureaucratic procedure which the Chinese went through in order to start business, and which was designed to cater for a centrally planned economy. For example, in order to get approval for an investment project, foreign investors needed to go through 5 commissions and offices, and 20 bureaux of the government (or at least 40 official seals and a maximum of 126 official seals!) (Tsao, 1996). In an interview with Sun Yeli, a veteran official in the SMG who later became the deputy director of The Economic and Trade Bureau of Shanghai Pudong New Area, he recalled foreign investors' complaints on the lengthy bureaucratic procedure:

This was one of the major areas that foreign investors complained about. In almost every meeting, they were asking the municipal government to cut short the lengthy bureaucratic procedure. In some cases, foreign investors complained that they did not know which governmental department they needed to go in the first place for an investment project.

With the increasing pressure from foreign investors and growing competition with other Chinese cities for foreign investment, the SMG decided to establish a new governmental development – the SFIWC to manage and coordinate all matters involved with foreign investment. The intention of this institution-building effort was to provide a “one window, one tape” service for foreign investors. The newly created commission

consisted of four components to promote administrative authority and institutional effectiveness. The SMG attached great importance to the SFIWC, which was reflected by the fact that Mayor Zhu Rongji held concurrently the directorship of the Commission. Committee members included vice-directors of the Planning Commission, Foreign Economic and Trade Commission, Economic Commission and the Construction Commission. New investment regulations were also issued to clarify the investment procedures and to make the process more transparent.

Under the new procedure, the SFIWC was the first place for foreign investors to visit. The SFIWC, according to the different projects, would then direct foreign investors to go through the necessary bureaucratic procedures at the end of which stood the SFIWC. Finally, the SFIWC would issue an official seal to approve investment applications. The establishment of the SFIWC and the new investment regulations that came with it cut substantially the red-tape and bureaucratic layers, which in turn enhanced institutional effectiveness. An effective governmental system – the major component of “soft investment environment” – helped greatly to attract foreign investors. Before the establishment of the SFIWC, direct foreign investment grew 44% annually from 1985 to 1987. The 1988 figure, however, increased by 72% in comparison with the 1987 data. Other forms of foreign investment such as foreign loans also increased dramatically, 55 times more in 1988 as compared with 1987 (SSB, various years).

The SMG has since made continuous efforts to improve bureaucratic efficiency. In early 1990s when I was working in the Pudong government, a phrase that often appeared in official documents and party controlled mass media was “to do things in accordance with international rules”. Sun told me that

In terms of setting up a company, the international rule is the registration rather than approval system, i.e., to set up a company, barring those prohibited by the law, what you need to do is just to go and register with the local authority. You don’t have to go through the lengthy application procedure. In America, it takes 3 days to set up a company. In Hong Kong, it takes a week. It takes 3 months in China.

It will be a long way for China to go from an approval system to a registration system, due to China's gradual reform from a centrally planned economy to a market-oriented one. But growing international exchange was given the Chinese opportunities to learn ways of dealing with international investors from mature market economies. The SMG's efforts to improve Shanghai's soft investment environment did not go unrecognised among foreign investors. Albert K. Ng, the general manager of Andersen (Shanghai) Business Consulting Co. Ltd., was very impressed by Shanghai's relatively good soft investment environment. Established in 1991, Andersen (Shanghai) Business Consulting Co., Ltd. was the first wholly foreign owned consulting firm to be registered in Pudong, Shanghai. A senior member of British Accounting Association and of Hong Kong Accounting Association, Ng was appointed as the general manager of Anderson (Shanghai) Business Consulting Co. Ltd. in 1994. As an expert on China's investment environment, Ng compared Shanghai's soft investment environment with other Chinese cities':

One of the strengths that Shanghai has is the rules and regulations here are more transparent and better enforced and followed in Shanghai than anywhere else that I see in China.

Ng complimented the SMG on its efforts to improve Shanghai's investment environment:

The SMG has been trying to create a more level playing field, more equal status for foreign-invested enterprises as well as local Chinese enterprises. Because the ways the rules and regulations are implemented to foreign-invested enterprises are quite restricted in terms of what they can do, and to Chinese enterprises are quite flexible, and sometimes flexible to the point of beyond what I think it is intended within the existing regulations. What I see happening is that as laws change it has become more transparent and easier for foreign invested enterprises to cooperate and at same time I think the Chinese companies are finding that they have to follow more transparent rules also.

Ng's assessment on Shanghai's investment environment was supported by Pan Ruihua, the Deputy Secretary General of the Shanghai Pudong New Area Association of Enterprises With Foreign Investment (PAEFI). As a semi-official organisation, the PAEFI has over 3000 registered members of foreign invested enterprises including those

funded by investors from Taiwan, Hong Kong and Macao. Pan supposed that Shanghai's good investment environment was one of the major reasons that many Taiwanese industrialists switched their operations from the South China to Shanghai in the second half of 1990s:

In the second half of 1990s, there was a wave of Taiwanese industrialists switching their operations from Guangdong province to Shanghai. Many of these Taiwanese industrialists were small and medium investors, who came to invest in Guangdong in the late 1980s and early 1990s. They opted to invest in Guangdong in the first place for they were attracted by the flexibility shown by the Guangdong government in its policy implementation while Shanghai was rigid in policy aspects. Since the importance of preferential policies in attracting external investment was receding, more and more Taiwanese industrialists moved to Shanghai because they felt that rules and regulations were more transparent and better enforced, and thus their interests were better protected. The Yangzi Delta area with Shanghai as its centre has now the biggest Taiwanese community in mainland China with a population of some 300,000.

While relatively transparent and efficient governmental system is one of Shanghai's advantages in competing with other Chinese cities for foreign investment, Shanghai's strategic position in the Chinese market is the most important factor for attracting foreign investment in Shanghai. All of the representatives of foreign investors I interviewed (see Chapter 1 for the list of interviewees) pointed to Shanghai's strategic position of gateway to the Chinese market – potentially the world biggest market as the top motivating factor for their investment in Shanghai. The finding is consistent with similar researches done by other scholars (see Table 8.3). Among interviews I conducted, the case of Eastman Kodak Company's moving its regional headquarter from Hong Kong to Shanghai showed that Shanghai had become an increasingly important node in many TNC's global restructuring of production and marketing.

In an interview with Warren Wisnewski, Vice President of Eastman Kodak Company for the Greater China Region, he told me how the company made the decision of relocating its regional headquarter. Eastman Kodak used to have its regional headquarter for East Asia located in Hong Kong. With the rapid growth of its business in China, Kodak established the Greater China Region with its headquarter also located in Hong Kong in

1995, which was responsible for the company's business in mainland China, Taiwan, Hong Kong and Macao. In 1997, Kodak moved its headquarter for the Greater China Region from Hong Kong to Shanghai. And in 1999, its regional headquarter for East Asia was moved to Shanghai too. Asked why the company relocated its headquarters, Wisniewski said,

I think for people who are unfamiliar with China, Hong Kong may seem like an easier place to start. For people who are familiar with China and familiar with where it headed, Shanghai is the place to be. If China is the most important market for Kodak in the future, and clearly it is the most important market for the region, then our regional headquarter should be located here. I believe that both the central government as well as the Shanghai government, it is their vision that Shanghai will become the commercial centre of China. So I think our vision is consistent with that.

While the Chinese were learning hard from interaction with foreign investors, there was a levelling process taking place in foreign investors' side. Isolated from the world capitalist economy for 30 years, China was attractive but rather mysterious to foreign investors. Warren Wisniewski commented that many foreign investors thought that

If you have been to China once, you come back and you consider yourself expert. If you have been there a long time, you realise you have so much more to learn. The longer you are in China, the more you realise how little you understand and you have to continue to learn.

Thirty years' centrally planned economy had a profound impact on China's bureaucratic procedure and officials' mentality. China's gradual reform means there will be a long transition period in which the old and the new coexist. It could take a long time for the new systems including regulations, rules and procedures to be established and well coordinated and for the old to be abandoned. It takes even longer for people to change their attitude and mentality towards the new system. In the transition period, therefore, it is not surprising that many foreign investors, when they came to China, found regulations unclear and difficult to follow, and sometimes found a big difference between the words and the reality. In dealing with the Chinese government, however, foreign investors learned how things go in China. Wisniewski told me how he learned the

difference between the regulations on wholly foreign owned companies and the reality in China:

...rules and regulations would say that you, as a 100% foreign owned company, should be able to come in and participate in a particular market. And every regulation would suggest that is true. Come in and set up your own operation and go into business. In reality, though, there are a lot of facts out there that would impede. Even though there are not laws suggesting this, there would be organisations, individuals and bureaus that could make it difficult for you as a wholly foreign owned company to do business ... You can make a choice... You can say, that is OK, I am going to continue to prove that I can do it this way. Or you may choose to, you learn over time, instead of fighting the system, you want to make it easier for yourself, and yield to the system if you will, accept working with a local partner, eliminate those elements that would be in the way of your being successful by yourself, you can be more successful and more quickly. That is something that I think takes time to learn here in China.

Among three types of foreign direct investment in China – equity joint ventures, cooperative joint ventures and wholly foreign-owned enterprises, the former two types were more acceptable to the Chinese government because of the involvement of Chinese partners, while the latter was treated differently for fear of losing control of the economy. Compared with equity joint ventures and cooperative joint ventures, wholly foreign-owned enterprises were only allowed in few specially chosen economic sectors. Even in these sectors, as Wisniewski has learned, wholly foreign-owned companies would experience many difficulties doing business in reality mainly because of officials' attitude and mentality. Many foreign investors would like to set up wholly foreign-owned enterprises for it allowed them to make strategic arrangements in their global organisation of production and management and to protect their own technologies and expertise. However, due to the suspicion of the Chinese government, many foreign investors chose to work with local partners, i.e., to set up equity joint ventures in the first decade of China's accepting foreign investment.

Take Pudong for example. In 1990, the number of equity joint venture approved accounted for 78.6% of the total number of foreign funded enterprises approved, while wholly foreign-owned enterprises accounted for 14.3%. The dominant position of equity

joint venture did not change until the mid-1990s when China became increasingly integrated with the world economy and the Chinese government slackened its control of wholly foreign-owned enterprises. In 1995, the number of wholly foreign-owned enterprises approved in Pudong reached 455, surpassing that of equity joint ventures which was 340. By 1999, the share of wholly foreign-owned enterprises in the total number of foreign funded enterprises approved increased to 83.9% (Wang, 2000).

Wisnewski's narrative of how he learned the subtle difference between the words and the reality in China via dealing with the Chinese government was echoed by Dr. Hans J. Geelharr, the general manager of Shanghai Gaoqiao-BASF Dispersions Co. Ltd. A German company, BASF is one of the biggest foreign investors in China's chemical industry with capital investment totalling more than US\$ 600 million. Shanghai Gaoqiao-BASF Dispersions Co. Ltd., established in 1988, was a joint venture between BASF and Shanghai Gao Jiao Petrochemical Corporation, in which BASF holds 50% share. In the interview, Dr. Geelharr told me how he learned to understand the real meaning of the term "industry" in China:

Our definition of industry is anybody who participates. Any company, foreign, local, state-owned, privately-owned, collectively-owned, whatever. That defines the industry. In China, at least from the governmental standpoint, when you say industry, technically, I won't say all, but most government officials have a very different definition of industry, that industry is state-owned industry, primarily. When you talk about development of the industry, again for a foreign company coming in, the western view is that, of course, they should be welcomed, because they create jobs, the tax revenue, etc. ... But there are some government officials that view industry development, first and foremost, should be to develop state-owned industry. And secondly, to develop the overall industry. And you are getting complex, sometimes, as a result of that. So the two have to go in balance.

Dr. Geelharr provided an excellent example showing the resilience of Chinese officials' mentality which was inherited from China's centrally planned system and which treated enterprises differently in accordance with their ownership. Under the centrally planned system, the economy was divided into various industries and every industry had its own ministry as the top regulator. The central government managed the economy through these ministries, which could number dozens. Unlike in the market economy where

resources were allocated to different economic sectors by the “invisible hand” of the market, resources were allocated through these visible hands (ministries) to different enterprises in the centrally planned economy. In allocating resources, ministries treated enterprises differently with the priority given to the state-owned over the collectively-owned. And within the state-owned enterprises, the priority descended administratively from the central to the local. There was no place for the private-owned enterprises in this matrix of resource allocation, let alone foreign companies. It is, therefore, not surprising that Chinese officials view of industry, which had been entrenched in three decades of China’s centrally planned economy, was reluctant to include foreign companies.

China’s gradual reform means that it would take a long time for the Chinese government system to catch up with the international way of doing things. But foreign investors learned the situation quickly in their dealings with the Chinese government. What is more, some foreign investors learned how to make use of the system in order to get things done in China.

Michael Gotschlich, the General Manager of The German Centre Shanghai, an enterprise wholly owned by Bayerische Landesbank to help German small and medium companies gain their quick and effective entry into the Chinese market place, gave me an example of how German representative offices worked with the local authority to get round the regulation and achieved a win-win situation.

Many foreign companies, particularly those in service sectors such as finance, insurance, legal, consultant, etc., where full foreign operation was not allowed, tended to set up representative offices as the first step to enter the Chinese market. According to the regulation, representative offices, although relative easily established, can do little more than look at the local market, provide information back home and liaise with the Chinese government. “But many representative offices do much more than that,” Gotschlich said,

particularly consulting jobs. Because representative offices do not have invoices, they do business here in Shanghai but bills are sent from Germany or elsewhere. The Shanghai government accepts this although representative offices are not

allowed to do business in China. They say: “OK, you can do this way. But you make money here, so you have to pay tax.” But without invoices representative offices don’t have income. If you don’t have income, how can you pay tax? The two sides worked out a solution to this problem, that is, representative offices can do business in Shanghai by writing invoices in places other than China. Meanwhile, representative offices will pay tax and the tax will be paid on the basis of expenses that representative offices spend. The reason behind this is: the more business you do, the more expenses you spend, and the more money you make. Of course, it is not as precise.

Both the representative offices and the Shanghai government are happy with the solution. Representative offices can do businesses in Shanghai, which is not allowed according to the regulations. The Shanghai government does not violate the regulations because representative offices do not get invoices from the government. At the same time, the Shanghai government can have the tax revenue from businesses done by representative offices.

The Chinese government made many regulations to manage and control the activities of international capital that was attracted by the opening of the Chinese market. However, these regulations were geared up with China’s existing governmental system, which was basically centrally controlled. There was a big gap between these regulations and the so-called “international rules” which were developed from western market economies. The increasing exchange between the Chinese government and foreign investors made both sides realise this difference and try to close the gap. Sometimes when there was convergence of interest both sides could work together to get a solution to their mutual satisfactions. The above example shows such a case. Some foreign companies, who understand the Chinese way of doing things after many years’ experiences in China, can do even more than working with the local authority. They can, if necessary, take over responsibilities that were supposed to be undertaken by the Chinese government in order to get things done.

In an interview with Frank Wang, the deputy general manager of Delphi Automotive Systems (China) Holding Co. Ltd., he told me how his company took two Chinese local governments to reach an agreement on a reorganisation of its three subsidiary companies

in China. An American company, Delphi Automotive is one of the biggest suppliers of automotive components and systems. With the annual profit of US\$ 1,062 million, it is ranked by “*Fortune*” the thirteenth largest company within the industry of motor vehicles and parts in the world (*Fortune*, F-19, July 23, 2001). Delphi has invested more than US\$ 400 million in China. With Delphi Automotive Systems (China) Holding Co. Ltd. which is located in Pudong, Shanghai as its headquarter in China, Delphi now has offices in Beijing, Shanghai and Changchun and operates more than a dozen joint ventures and wholly-owned ventures. Delphi China achieved US\$ 370 million in sales in 1999.

In early 2001, Delphi China wanted to reorganise three of its subsidiary companies into one company that would be located in Pudong, Shanghai. These three companies were located in three different provinces in China – Delphi Packard Electric Baicheng Co. Ltd. was located in Baicheng, Jilin province, Delphi Packard Electric Shanghai Co. Ltd. in Shanghai and Delphi Packard Electric (Guangzhou) Co. Ltd. in Guangzhou, Guangdong province. The Shanghai government welcomed the reorganisation proposal, as the new company – Delphi Packard Electric System (Shanghai) Co. Ltd. would be located in Pudong, which would create new jobs and tax revenues. The Guangzhou government gave a go-ahead for the proposal, as Delphi Packard Electric (Guangzhou) Co. Ltd. was newly established and had little impact on the local job market and tax revenues. The Baicheng government was, however, against the proposal, as Delphi Packard Electric Baicheng Co. Ltd. was a quite big company in Baicheng and the reorganisation would cost over a hundred jobs and hundreds of thousands of RMB in tax revenues.

In order to maintain good relations with local governments, which were regarded as an important factor in Delphi’s successful operation in China, Frank Wang, who was in charge of the reorganisation, made shuttle travels negotiating with and mediating between the Shanghai and Baicheng governments. After 5 months hard negotiation and mediation, Delphi China finally got these two local governments to reach an agreement on its reorganisation. The core of the agreement was that the Shanghai government would return a portion of local tax revenues from the new company to the city of

Baicheng every year as the compensation to the closure of Delphi Packard Electric Baicheng Co. Ltd. after the reorganisation. The amount of tax returned would be based on that that the Delphi Packard Electric Baicheng Co. Ltd. paid to the city of Baicheng at the time when the agreement was signed. It seemed that Delphi China had done what was supposed to be done by the central government, that is, to get two local governments to reach a cross-provincial agreement on a company's internal reorganisation. "As far as I am concerned," said Frank,

it is the only case in China that a foreign company has done this. Looking back, we were a bit surprised that we could get the reorganisation done this way. It may be incredible in America or other countries. But it is China. There is a saying among foreign investors here: "In China, everything is possible. But if you don't try, nothing is possible".

From general understanding of how things go in China to working together with the local government to get things done to mediating among local governments to reach a cross-provincial agreement, foreign investors learned, and learned quickly from their increasing interaction with the Chinese government. There has been a learning process in both sides of the Chinese government and foreign investors. The above cases show that both sides have the ability to learn as well as the desire to learn from the growing exchange. When both learn there is an interest convergence, they can work together to achieve their common goals. The following section shows further how the SMG and foreign investors, driven by the common interests of growth, formed what can be called an implicit, project-based pro-growth coalition in the development of Lujiazui Central Finance District.

8.5 The development of Lujiazui Central Finance District (LCFD)

LCFD is the SMG's pet project which is intended to become the symbol of 21st century's Shanghai – the Chinese equivalent of Manhattan in New York, Shinjuku in Tokyo and La Defense in Paris. LCFD would also serve as an important symbol and image of the results of reform and the success of the open door policy. This can be

evidenced by the fact that China's top leaders including Deng Xiaoping, Jiang Zeming, Li Peng and Zhu Rongji all paid inspection visits to this area, and some visited several times. During his visit in March 1998, Jiang even inscribed for the Lujiazui Finance and Trade Zone: "Endeavour to build Lujiazui into an internationally-oriented modern finance and trade zone" (*Lujiazui Today*^{*}, June 1998). An inscription from the top leader is highly regarded in China as a firm endorsement from the central government. With the full support from the Central government, the SMG showed great enthusiasm, intending to bulldoze the whole area and build up a brand new urban form studded with gleaming skyscrapers which would represent Shanghai on the global stage. For this purpose, the SMG made painstaking efforts focusing on the following three aspects.

8.5.1 World class planning

In 1992, the SMG invites four internationally renowned architectural and planning firms – Richard Rogers from Britain, Massimiliano Fuksas from Italy, Toyo Ito from Japan, and Dominique from France, together with one local Shanghai team, to consult and submit conceptual proposals for LCFD. All of these four foreign firms had worked on international projects in Paris, other European cities, North America and Japan. It was the first time in China that a group of elite international architects regarded as the physical agent of contemporary globalisation processes, were involved in the design of such a large and important area.

Indeed, the involvement of these firms itself was a good indicator that not only global capital but the ideas and images that were developed out of experiences in advanced western cities and globalised in the development of globalisation started to penetrate into China. These four foreign firms were international experts who understand the nature of the interconnection between global flows and urban development processes, rather than the specificity of local systems. They were dealing with Shanghai the same way they did

^{*} A magazine that is irregularly published by the Shanghai Lujiazui Finance and Trade Zone Development (Group) Co., Ltd.

with Tokyo, London, Paris and Rome where they had worked for many years. It is of course exactly what the SMG wanted.

In October 1992, the five conceptual proposals for LCFD were submitted and reviewed by a technical committee set up by the SMG and the French government.* A summary from the evaluation report pointed out the common feature of the five conceptual master plans:

They have a certain number of aspects in common, in particular concern for having a global vision for the project to be created. The development of such a district cannot be reduced to simply placing edifices on isolated pieces of land. Such a development must be based on a certain “concept” of a city in the 21st century. The parts of the city must be examined in relation to this concept: infrastructure, networks, public services, business districts, residential areas, etc. (cited in Olds, 1995: 306-307).

Clearly, the global vision was in the mind of all architects invited to take part in the consultant. It is designed not for Shanghai or China alone, as the general manager of Shanghai Lujiazui Finance and Trade Zone Development (Group) Co., LTD (SLDC), Wan Ande (1998) said, “we are going to set up a stage where Chinese companies as well as MNCs from all over the world come to play” (*Lujiazui Today*, June 1998). In 1993, the SMG finally chose the one that incorporated some ideas from all of the proposals with the existing plan developed by a local institute in 1991. As a result of 17 rounds of improvements over three years, the master plan was boasted as “a collection of world wisdom” with the theme of “Man and Nature in Harmony” (*Lujiazui Finance & Trade Zone: 21st century international finance & trade centre*, a company introduction brochure by SLDC). The revised master plan for LCFD will permit 69 buildings, with a total buildable area of 4.18 million sq. m. Seventy-five per cent of the total buildable area is devoted to finance, business and trade, office and hotel buildings, 16 % to shopping malls, 6.6% residential and 2.4% culture and entertainment (see Figure 8.4 for

* The consultation process was supported by the French government and organised by a special Franco-Chinese committee. For detail, see Olds, 1995.

the division of lands prefixed with English alphabet). Thirty-four per cent of the total land is devoted to open space and green area (Olds, 1995).

Figure 8.4 Land Division of LCFD



Source: adapted from *Lujiazui Finance & Trade Zone: 21st Century International Finance & Trade Zone* (a company brochure by the SLDC)

Apart from the master plan, other specific plans also involved international expertise (*Lujiazui Finance & Trade Zone: 21st century international finance & trade centre*; and my interviews with Yang Jianyi, Manager of Planning Division, SLDC in 2000). In 1994, following international tendering, Oscar Faber TPA from Britain presented a unique transportation system design for LCFD, which includes river-crossing facilities, inter-district traffic organisation system and public transportation system. In 1995, FSC, a well-known Canadian planning company, was entrusted to conduct the higher-level design work for LCFD, which is designed to supplement, improve and upgrade the original urban plan and architectural design.

In 1998, the French Charpentier-La Defense company was entrusted to work out the landscape design for the Century Boulevard. The Century Boulevard is supposed to be a symbolic landscape avenue as a part of Shanghai's West-East Development Axis connecting the Hongqiao International Airport and the Pudong International Airport. Its unique layout of asymmetric lanes and the integration of lanes with 8 botanical gardens embodies the planning trend of cities in the 21st century which aim at sustained development.

8.5.2 The establishment of Shanghai Lujiazui Finance and Trade Zone Development Company (SLDC)

While the SMG is in charge of the overall planning of LCFD, it set up the Shanghai Lujiazui Finance and Trade Zone Development Company to co-ordinate the physical development of the site, particularly the development of property, and leasing of land. The company was capitalised by the SMG in 1990 via the injection of 1.51 sq. km of land in the zone at a price of RMB 100 per sq. m. Of the total 1.51 sq. km, the company controlled 0.56 sq. km of prime site in LCFD (Olds, 1995a).

The company generated most of its revenue from selling land. Its developmental strategy is based on so-called "rolling development", i.e., changing the "unripe land" into "ripe land" and acquiring more land by the money from selling the "ripe land" (My interviews with Kang Huijun, General Manager of SLDC, and Yang Jianyi in 2000). "Unripe land" refers to the land occupied by the work units or tenants, which is unsaleable in the land market. Because the whole LCFD is a built-up urban area, the company has to make the land conveyed by the SMG into "ripe land" by clearing and levelling the land and providing it with the necessary facilities such as electricity, water, telephone lines, sewage pipes and so on. The revenue from selling the "ripe land" in the secondary land market allows the company to acquire more "unripe land" from the SMG who monopolises the primary land market.

By “rolling development”, it now controls 6.8 sq. km of land in the Lujiazui Finance and Trade Zone. In December 1997, the company was transformed and renamed as Shanghai Lujiazui Development (Group) Co., Ltd. With a registered capital of 1.74 billion *yuan*, the group company has total assets of 11.6 billion *yuan* and net assets of 5 billion *yuan*. It consists of 22 firms, including Shanghai Lujiazui Finance and Trade Zone Development Co., Ltd, which has the fourth largest market capitalisation among all the listed companies in China (*Lujiazui Finance & Trade Zone: 21st century international finance & trade centre*).

8.5.3 The relocation of the existing occupants in LCFD

In translating the plan of LCFD into reality, the most difficult job involved may have been the relocation of the existing occupants. Unlike inner city redevelopment in western cities which is extremely prolonged by the privately-owned land system, urban renewal in China is much quicker thanks to the state-owned land system though the relocation involved is a daunting and time-consuming job. In Chinese cities, the local state has the power to forcibly relocate residents from their housing and community. According to the “Regulations on Management and Implementation of Urban House Dismantling” promulgated by the SMG in July 1991, if the development project is deemed by the urban authority to be conducive to the urban renewal and in accordance with urban plans, the existing occupants, be they SOE or individual residents, have to move out in a given period (Shanghai Housing and Land Authority, 1997).

Based on the Regulation, four types of relocation can be found in the urban redevelopment in Shanghai: 1) Relocation is organised by the local government, that is, the local government itself is the relocater. This type of relocation is mainly employed when the project involves the construction of urban infrastructure and public amenities. If a project is classified by the authority as an urban infrastructure construction, existing occupants will face a draconian rule: developers can bulldoze the land according to the project plan and leave all disputes to be settled later on. 2) Relocation conducted by developers. In this case, developers are supposed to apply to the local authority for the

relocation permission. However, due to the complicated issues involved in the relocation, developers tend to adopt the third type of relocation. 3) Most relocation involved in Shanghai's urban redevelopment is conducted by companies specialised in relocation. Usually set up by the housing authority, these companies have full support from local government in dealing with issues arising from relocation. 4) Relocation involved in developing large tracts of land such as the LCFD. Companies set up by the SMG in charge of development of the land in large tracts (like the SLDC) assume part of governmental functions and are responsible for the relocation in their land.

Despite these four types of relocation, the daunting job of relocation is in practise left to the city or sub-city government, because developers would be simply overwhelmed by the complex issues involved in the relocation even they want to do it. In the negotiation with the local government who is the *de facto* land owner, developers tend to take the easiest way -- they ask for a cleared land -- in return offering a high price. In fact, it has become a format that what the government offer on the table is the cleared land. With the money paid by developers, the local government would then hire the companies specialised in relocation (My interviews with numerous government officials and managers in SLDC confirm this format).

One of the most complicated issues involved in the relocation is how to compensate the displaced occupants including state work units and residents. In the case of residents, they can be compensated by three ways: property exchange, monetised compensation, and the combination of these two (Shanghai Housing and Land Authority, 1997). It is further complicated by two housing ownership that exist in today's urban China -- private owned and public owned. In the case of private-owned houses (note that the land is still state-owned), the developer needs to negotiate a compensation deal with the owner, based on factors of size, quality and location of houses. However, the housing in Shanghai is mainly publicly-owned -- the legacy of the state socialism, and the most houses that are demolished in the urban redevelopment are those classified as the "shanty and old-lane houses" (Gu and Liu, 1997).

In order to streamline the relocation process, the SMG issued on 8 December 1997 a policy especially for the relocation involving shanty houses - "Temporary Regulation on Compensation for Relocating Shanty Houses" (Shanghai Housing and Land Authority, 1997). According to the Regulation, displaced households that opt for relocation in public housing that is usually located in the edge of city will be compensated by increased living space. The increasing percentage depends on the location of the demolished housing and the housing provided (see Table 8.5). The land in Shanghai is classified into six classes in accordance with the location (see Figure 7.6 for the land classification in Shanghai) (ibid.). Moving from Class 1/2/3 to Class 4, 5, 6 will get an increase of 20%, 40% and 80% in the living space respectively. And moving from Class 4 to Class 5, 6 will get an increase of 20% and 40% respectively.

Table 8.5 Increase of Living Space for Displaced Households

The location of housing demolished	The location of housing provided			
	Class 1, 2, 3	Class 4	Class 5	Class 6
Class 1,2,3	--	20%	40%	80%
Class 4	--	--	20%	40%

Source: Shanghai Housing and Land Authority (1997: 43).

For those opting for monetised compensation, they get an amount of money calculated by the following equation: The monetised compensation = the average per square metre selling price of housing located in the Class 4 land \times the living space they should be given in the Class 4 land \times 80% (Shanghai Housing and Land Authority, 1997: 44). To ensure that everyone should better off in terms of living space if not the location, the SMG set a minimum starting point of living space at 10 square metre per person, i.e., those whose living space is below 10 square metre will be offered a starting point of 10 square metre in the calculation of compensation (ibid.).

Although replacement housing is normally bigger in size and self-contained in style, it is generally located on the edge of the city where the land is cheaper, and where urban amenities and public services are very underdeveloped. While residents are normally provided with replacement housing, they have no formal power in defining when the relocation process will take place, how much information is available about the process,

what type of housing they will receive (size, services available, etc.), and where the housing is located. They are also not necessarily relocated along with their neighbours to ensure the continuity of local community.

As an area where most occupants have been relocated, the LCFD represents a case that is very indicative of the relocation in Shanghai that has been taking place on an unprecedented scale and pace. Prior to the development of Pudong, there were 595 enterprises, some of which were run directly by central ministries, and 27,300 households in 1.7 sq. km LCFD (interview with Yang Chuancai, General Manager of Shanghai Lujiazui Urban Construction and Development Company, in 2000). Such a large scale relocation which involved different governmental departments both at central and local level and hundreds of state work units with tens of thousands of tenants, was obviously beyond the reach of any commercial company, and indeed only the local government or the empowered companies like SLDC was capable of handling such a complicated job.

The relocation of the existing occupants in LCFD was conducted by two methods. The first method was relocation through projects. When a piece of land was contracted, the SLDC would apply for relocation permission from the government and clear the land for the investors. By this way, the SLDC could clear the land piece by piece. In order to speed up the process of relocation, the SMG would also intervene directly and organise a large scale relocation. This was the case particularly when the relocation involved many state work units. Take the relocation for Binjiang Avenue (Riverside Avenue) for example (see Figure 8.4). The construction of Binjiang Avenue which is 1500 meters long, surrounding the whole LCFD from west, was very important for the LCFD and was regarded as one of key “image projects”. However, it would involve the relocation of many existing occupants among which were the so-called “big ten” (see Table 8.6)

As shown in Table 8.6, among these “big ten”, The Xinxin Machinery Factory was run directly by the Aero Industry Ministry. The Shanghai United Woollen Mill was the first joint venture set up in Shanghai, and The Shanghai Association of the Roman Catholic

Church was a religion housing. Other enterprises were run by six different municipal bureaus.

Table 8.6 The Big Ten Occupants Relocated in the LCFD

Occupant	Ownership	Ground floor area (m ²)	Built area (m ²)	Contract time	Compensation fee (RMB 10,000)	Date that the land was cleared
Shanghai Lixin Shipyard	Shanghai Sea Transportation Bureau	40,510	37,210	1993	18,000	1996.10
Shanghai Tobacco Machinery Factory	Shanghai Light Industry Bureau	56,243	80,605	1993	16,000	1996.12
Shanghai No.1 Grain Depot	Shanghai Grain Bureau	78,238	12,417	1993	13,000	1996.9
Shanghai Casing Factory	Shanghai External Economic and Trade Committee	22,969	25,490	1993	5,000	1997.12
Shanghai Lihua Paper Mill	Shanghai Light Industry Bureau	43,842	10,600	1993	25,000	1996.9
Shanghai Xinxin Machinery Factory	The Ministry of Aero Industry	61,000	63,000	1996.5	19,980	1997.12
Shanghai United Woollen Mill	Joint Venture	26,126	34,301	1996.5	12,000	1997.12
Shanghai No.10 Cotton Mill	Shanghai Textile Bureau	70,667	57,160	1996.5	24,800	1997.12
Shanghai Association of the Roman Catholic Church	Religion housing	2,883	4,206	1997	It was given a new housing built by the SLDC	1997.12
Shanghai No.1 Lock Factory	Shanghai Management Bureau of Collective Assets	6,640	5,092	1997	921	1997.12
Total		409,118	330,081		134,701	

Source: The material was collected from the fieldwork in 2000.

In order to relocate these occupants quickly, in May 1996, the SMG set up a steering team headed by a vice director of the PNAA to organise and implement the relocation. Negotiations were difficult, particularly when it dealt with the compensation fee. The steering team had to negotiate compensation fees with these big occupants according to their different ownership. In the case of the centrally-run Shanghai Xinxin Machinery Factory, the final deal was thrashed out between the SMG and the Aero Industry Ministry. The total amount of compensation fee for the “big ten” except the Shanghai Association of the Roman Catholic Church whose compensation was paid by in the form of new housing was about RMB 1.35 billion (approximately £100 million) which was

paid by the SLDC. Despite daunting negotiations, with the aid of direct intervention of the SMG and the PNAA, the “big ten” with the total ground floor area of 409,118 sq. m. were all relocated by the end of 1997.

8.5.4 The rapid development of LCFD

With the direct and strong intervention of the SMG, the relocation of LCFD was swift, and even astonishing to foreigners. Focusing on the LCFD from the same bird's-eye perspective, Picture 8.5 (taken in 1993) and Picture 8.6 (taken in the summer of 2000) show the complete spatial transformation of the LCFD. In 1993, the LCFD was basically a mixture of residential and industrial areas. The centre was a highly populated area with 27,300 households, while the surrounding riverside was occupied by factories. By the time I did my final fieldwork in summer 2000, only 10 enterprises and 1,100 households which are located in N sites (those 5-6 storey apartments behind the tallest Jin Mao Building) were left in LCFD. On the cleared land, 31 projects (buildings) had been contracted, among which 18 buildings had been completed in accordance with the mater plan (see Table 8.7, and for location of the site of land plot, see Figure 8.4). Picture 8.7 shows a close up view of some of the completed high-rising buildings.

Among these 31 high-rises, 23 buildings involved investment from Hong Kong, Taiwan and other countries. Ten buildings including Aquarium in B 5-4 (Singapore), Shanghai Senmao International Building in D 1-1 (Japan), Chia Tai Riverfest in X 1-2 (Thailand), Shangri-la Hotel in X 1-3 (Malaysia), and Shanghai World Financial Centre in Z 4-1 (Japan) were wholly foreign-invested. In designing buildings, the involvement of foreign and Hong Kong architects were even more significant. A total of 26 buildings were designed or jointly designed by foreign or Hong Kong architects including internationally renowned American architects SOM, KPF, SHCL, Canadian WZMH, German ABB OBERMEYER and Japanese Nikken Sekkei.

Picture 8.5 Bird's-eye View of the LCFD in 1993



Picture 8.6 Bird's-eye View of the LCFD in 2000



Picture 8.7 Super High-rising Buildings in the LCFD, 2000



Table 8.7 Thirty One Contracted Buildings in Lujiazui Central Financial District

Plot number	Project	Major investors	Country (or region) of investors	Designer	Land area (m ²)	Total floor area (m ²)	Completion date	Height (m)	Usage	Selling price (US\$/m ²)
B1-2	Bank of China Tower	Bank of China, Shanghai Branch; The Bank of East Asia, Ltd. (Hong Kong); SLDC.	Shanghai, Hong Kong	Nikken Sekkei Ltd., Japan	9,919	120,000	2000.6	258	Office	N. A.
B1-3	BOCOM Financial Tower	Bank of communication, Shanghai Branch	Shanghai, Hong Kong	ABB OBERMEYER (Germany), East China Architectural Design Institute (ECADI)	9,975	80,000	2000.10	200	Office	N. A.
B2-4	Bank of Shanghai Mansion	Bank of Shanghai	China	Kenzo Tange Associates	11,677	85,000	2002	200	Office	N. A.
B5-4	Aquarium	Poly Group	Singapore	ECADI, SAA, BECA (Singapore)	12,094	29,733	2001	30	Entertainment	N. A.
B6-5	Shanghai Pudong Customs Building	Shanghai Customs Office	China	Shanghai Civil Architectural Design Institute	11,450	30,000	96.6	95	Office	N. A.
D1-1	Shanghai Senmao Int'l Bldg.	Forest Overseas Co., Ltd.	Japan	Mori Biru Architects and Engineers Co., Ltd., ECADI	10,423	113,000	98.4	192	Office	Lease only
D1-2	Huaneng Union Tower	Huaneng Co.	China	ECADI	9,300	55,800	1997.7	134	Office	1800-1980
D1-3	Central Tower	Ministry of Internal Trade	Shanghai, Hong Kong	Alex Wang Architects (Hong Kong)	8,990	53,848	1997.6	130	Office	N. A.
D 1-4	Golden Plaza	Halla Engineering and Construction Co.; Huaneng Real Estate Development Co.	Korea, China	ECADI, Junglim Architecture (Korea)	8,585	70,912	1998.12	160	Office	1900
D2-1	World Financial Tower	China Construction Bank, Shanghai Branch	Shanghai, Hong Kong	Leigh and Orange Design and Project Development Consultant (China) Ltd.	8,250	66,000	1997.7	168	Office	2300
D2-2	China Merchants Tower	Merchants Bank, Shanghai Branch	Hong Kong	Hong Kong Guan Shanmin Designers Association	7,300	71,000	1995.12	140	Office	2500

D2-3	New Shanghai Intl' Tower	Shanghai Intl' Trust and Investment Corp.; ATS Co. Ltd., Japan; SLDC	China, Japan	B+H Architects Intl' Inc. of Canada	6,781	81,000	1997.5	168	Office	1900-2200
D2-4	Yindu Bldg.	People's Bank of China, Shanghai Branch	China	ECADI, Tongji Architectural Design Institute	6,120	31,853	1995.9	89	Office	N. A.
D3-1	Construction Mansion	Shanghai Urban Construction Invest. & Development Co.	Shanghai, Hong Kong	ECADI	7,080	56,000	1997.6	100	Office	N. A.
D3-2	Shanghai Stock Exchange Bldg.	Shanghai Stock Exchange	Shanghai, Hong Kong	The Webb Zerafa Menkes Housden Partnership Canada (WZMH)	11,871	91,534	1997.6	109	Office	2900-3100
D3-3	Pudong Development Mansion	Pudong Development Bank	Shanghai, Hong Kong	WZMH, Canada	6,900	51,000	2000.12	153	Office	N. A.
D3-4	Information Centre	Shanghai Post & Telecom. Admin.	Shanghai, Hong Kong	Nisseisu Architects, Japan	8,250	80,000	2001	180	Office	N. A.
D3-5	Lujiazui-Itochu Development Mansion	SLDC, Itochu Co. Ltd.	China, Japan	SHCL (USA)	5,957	38,700	2002	140	Office	N. A.
D3-6	China Insurance Mansion	People's Insurance Co. of China	Shanghai, Hong Kong	WZMH, Canada	6,000	64,000	1999.5	196	Office	N. A.
20 D4-1	Jinsui Tower	Agricultural Bank of China, Shanghai Branch	China	Architectural Design Institute of Zhejiang Province; B+H, Canada	6,650	40,010	1997.7	110	Office	2200
D4-4	Marine Tower	China State Shipbuilding Corp. (CSSC)	China	Albert C. Martin & Associates (USA); The 9 th Design & Research Institute of CSSC	6,360	48,476	1996.7	106	Office	N. A.
D4-5	Jujun Tower	Industrial and Commercial Bank of China, Shanghai Branch	China	FFGL (USA)	5,860	51,393	2000.4	119	Office	N. A.
N3-1	21 st Century Mansion	China Everbright Bank	China	Murphy John Architects (USA)	12,000	80,000	2002	180	Office	N. A.
X1-2	Chia Tai Riverfest	Thai Chia Tai Group	Thailand	Jerry Architects Intl' Inc. of USA	31,003	226,571	2001	50	Commerce	N. A.
X1-3	Shangri-la Hotel	Kerry Co.	Malaysia	Sightseeing Design Institute (Japan)	10,035	54,943	1998.3	100	Hotel	N. A.

X1-5	Chua Tai Headquarter	Thai Chua Tai Group	Thailand	--	10,321	60,000	2001	140	Office	N. A.
X1-6	Aurora Mansion	Aurora Group	Taiwan	Nikken Sekkei Ltd., Japan	9,720	65,000	2002	180	Office	N. A.
X4-2	Tomson Sea View Garden	Tomson Co.	Taiwan	Global Design Group (Hong Kong)	20,111	120,000	2001	60-80	Apartment	N. A.
X5-2	Top Glory Hotel	Hengda Development Co. Ltd.	Hong Kong	RDL Design Asia Co. Ltd.; ECADI	7,410	30,000	2001	60	Hotel	N. A.
Z2 2	Jianmao Building	Ministry of Foreign Trade and Economic Cooperation	Shanghai, Hong Kong	Skidmore, Owning & Merrill LLP, USA (SOM)	23,611	289,500	1998.8	420.5	Mixed-use	3500
Z4-1	Shanghai World Financial Centre	Forest Overseas Co., Ltd.	Japan	Kohn Pedersen Fox Associates (KPF), USA	30,000	335,700	2003	460	Mixed-use	N. A.

Source: collected from fieldwork in summer, 2000

All the buildings were built for offices or hotel use with luxurious facilities. With selling price ranging from US\$ 1,800 – 3,500 per sq. m., it may be still relatively cheaper compared with the real estate market in London, New York or Hong Kong, but it is expensive enough to scare away the normal Chinese companies. The MNCs, foreign banks, and the large Chinese companies are the targeted would-be occupants for these luxurious buildings, which the list of occupants in Jiamao Building is very illustrative of (see Table 8.8).

Jingmao Building is arguably the most famous building in China by virtue of its height and distinctive design style (see Picture 8.8). Developed by 18 National Foreign Trade Companies owned by the Ministry of Foreign Trade and Economic Cooperation, the Jingmao Building was designed by Skidmore, Owing & Merrill LLP(SOM) - an internationally renowned American architect specialised in super high-rise buildings. With a height of 420.5 metre, this 88-storey building is divided into three parts: Floors 1-52 are designed for office use, Floors 53-87 is the self-boasted world highest deluxe hotel -- 5 star Grand Hyatt Hotel, and the 88th floor is for sightseeing. As shown in the Table 8.8, fifty companies have moved in Jingmao Building. Among these 50 companies, 33 are foreign-funded companies including 6 American, 6 German and 5 Japanese.

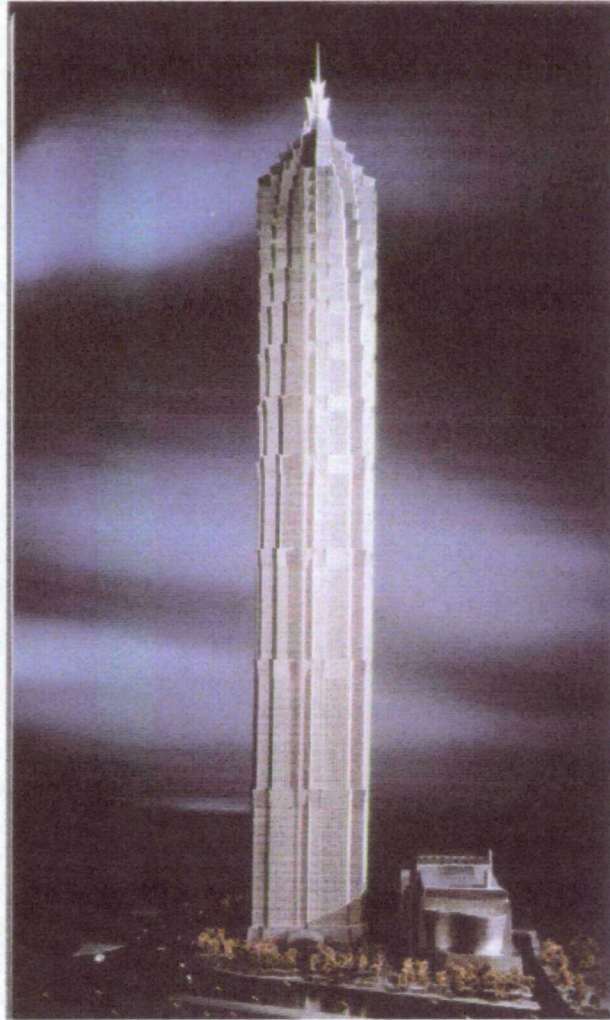
Ten years on, a brand new financial district has emerged in a place that used to be a mixture of industrial and residential area. Such a rapid development would have been impossible without great efforts made by an implicit pro-growth coalition between the local government and international capital which was formed in the process of development. The following case of the would-be world tallest building (Shanghai World Financial Centre) at the site Z 4-1 of LCFD is very illustrative of the formation of this pro-growth coalition.

Table 8.8 The List of Occupants in Jin Mao Building

Floor	Company	Country or region of the company
3-6	Shanghai Diamond Exchange	China, Israel
7	Shanghai Jin Mao Property Management Co., Ltd.	China
8	China Jin Mao Group Co., Ltd.	China
9-10	Huawei Technologies Co., Ltd.	China
16	Shanghai AIAL Information Company Ltd.	Germany
16	CLSA Ltd. Shanghai Representative Office	France
17	Yamaha Motor (Shanghai) Trading Co. Ltd.	Japan
17	Binhai Golf Club	Hong Kong
17	Gerling Kredit Pruefung GMBH Co.	Germany
19	Sinochem Pudong Trading Co., Ltd.	China
19	Seasonproof Garment & Down Inc.	America
20	The Asahi Bank Ltd. Shanghai Branch	Japan
20	Shanghai Jiamao Constracution & Decoration Co., Ltd.	China
20	Health Pharmaceuticals (China) Ltd., Shanghai Branch	Hong Kong
21	Manulife-Sinochem Life Insurance Company Ltd.	China, Canada
22	Overseas Union Bank Ltd., Shanghai Branch	Singapore
22	Shanghai Sinochem Trading Co., Ltd.	China
22	China Technology Ventures Inc.	America
23	Shanghai RSMT Investment & Management Consulting Co., Ltd.	China
23	Lynton John & Associates	China
23	Haarmann Hemmelrath & Partner Shanghai Office	Germany
23	Haarmann Hemmelrath Management Consultants Shanghai Office	Germany
23	Shanghai Golden Investment & Development Co., Ltd.	China
23	Shanghai Mitsubishi Elevator Co., Ltd.	China, Japan
23	Beijing Tianyuan Law Firm Shanghai Office	China
23	China Venture Capital (Shanghai) Co., Ltd.	China
23	Rainbow Bridge Law Firm	China
25	Allbright Law Offices	China, America
25	Vista Media International	China, America
25	Shanghai Moririn Trading Co., Ltd.	China
25	Zhongquan Assets Management Co. Ltd.	China
25	Elkem International Trade (Shanghai) Co., Ltd.	China, Norway
25	Dow Jones Company Inc., Shanghai Representative Office	America
26	Tomen (Shanghai) Co., Ltd.	Japan
26	Tomen Agroecology Trading (Shanghai) Co., Ltd.	Japan
26	Tomen Kayaru Chemical Trading (Shanghai) Co., Ltd.	Japan
26	Zamil Steel Buildings (Shanghai) Co., Ltd.	Saudi Arabia
26	Zamil Steel Buildings Co., Ltd., Shanghai Representative Office	Saudi Arabia
26	Shanghai Jinchuang Investment Management Co. Ltd.	China
27	Shanghai Jumps Forward Asset Management Co., Ltd.	China
28	ABN-AMRO Bank Shanghai Branch	Netherlands
28	ABN-AMRO Asia Ltd.	Netherlands
29	Shanghai World Trade Syber Co., Ltd.	China
31	Regus Business Services (Shanghai) Ltd.	Britain
36	Compaq e-Commerce Competency Center	America
36	Compaq Telecommunications Competency Center	America
39	Redas GmbH Shanghai Office	Germany
39	Dresdner Bank AG Shanghai Branch	Germany
44	Shanghai Shi Mao Real Estate Co., Ltd.	China, Hong Kong
44	Cat Electric Sound (Shanghai) Co., Ltd.	China, Germany

Source: Collected from fieldwork in summer 2000

Picture 8.8 Jin Mao Building



Source: Courtesy of China Shanghai Foreign Trade Centre Co. Ltd.

8.6 The case of Shanghai World Financial Centre

During my fieldwork in July 2000, the general manager of SLDC, Kang Huijun gave me an account of investment by Forest Overseas Co. Ltd. in the site D 1-1 and the site Z 4-1, which, for him, demonstrated achievement of SLDC in attracting foreign investors, but for me, reflected how the SMG and foreign investors, driven by the common interests, worked together to develop the LCFD. The building on the site D 1-1, named as “Shanghai Senmao International Building”, was built in 1998 by Shanghai Senmao International Real Estate Co. Ltd., which is wholly owned by Forest Overseas Co. Ltd. In November 2000, the building was renamed as HSBC Tower. In an interview with Tomoshige Yamada, General Manager of Shanghai Senmao International Real Estate Co. Ltd., I was given an account of the development of the site D 1-1 and Z 4-1, which was similar to that given by Mr. Kang. The following narrative of the case of Shanghai World Financial Centre is based on these two interviews.

The mother company of the Forest Overseas Co. Ltd., Forest Building Co. Ltd. is the largest real estate company in Japan. The owner of the company, Minoru Mori, was named in 1992 as “the richest man in the world” by Fortune for his personal fortune of US\$ 14.8 billion. The development of Pudong caught the attention of Mr. Mori who was considering a new strategy of overseas investment in the wake of the collapse of the Japanese real estate market in the early 1990s. In his first visit to Pudong in November 1993, he expressed strong interest in the site D 1-1 and particularly the site Z 4-1 which would be the tallest building (96 storey) in the LCFD according to the plan. Realising that Minoru Mori would be a heavy-weight figure in the development of LCFD, leaders of the Shanghai government were keen to promote these two sites. In his second visit to Shanghai in February 1994, Mr. Mori was met by the vice Mayor of Shanghai, Zhao Qizhen who was concurrently the Director of the PNAA, the standing vice Mayor of Shanghai, Xu Kuangdi and Mayor Wong Ju. When Xu Kangdi was

promoted to the Mayor of Shanghai in the spring of 1994, his first letter was sent to Minoru Mori. In the letter, Xu expressed the hope that the SMG would fully support and co-operate with Mr. Mori in making the projects in the site D 1-1 and Z 4-1 successful.

In September 1994, the SLDC and Forest Overseas Co. Ltd. which was financed by Forest Building Co. Ltd. and dozens of Japanese financial institutions signed a contract of land lease for the site D 1-1 and Z 4-1. According to the contract, the Forest Overseas Co. Ltd got 50 years use right of the site D 1-1 and Z 4-1 at the price of US\$ 500 per sq. m. and US\$ 540 per sq. m. of the buildable area respectively. Ten percent of the cost was paid upon signing of the contract. The rest would be paid in September 1995 for the site D 1-1 and at the end of 1995 for the site Z 4-1 on the condition that the land would be cleared on time. As foreign investment, the projects would enjoy all preferential policies given by the Chinese government, among which was the tariff waiver for materials imported for the purpose of building construction. Since these two projects were two super-rising buildings, this policy of tariff waiver was very significant in the company's budget plan. In addition, the SMG pledged a reduced rate of 15 per cent income tax for the projects. Income tax at a reduced rate of 15 per cent was one of the preferential policies given to foreign invested enterprises in Pudong by the central government, but this was for enterprises in the manufacturing sector only. Obviously, as an important international real estate company, Forest Overseas Co. Ltd. obtained a major concession from the SMG.

According to the contract, the SLDC would make these two pieces of land ready for use by September 1995 and by the yearend of 1995 respectively, providing the land with "seven connections and one clearance". "Seven connections and one clearance", the usual standard for the land leasing in China, means that the land is connected with "running water pipes, drainage, sewage, electricity, gas, telephone lines and roads", and all attachments to the land are cleared with existing residents relocated. The most difficult job involved was the relocation of residents. In the interview with Yang

Chuancai, the general manager of Pudong Lujiazui Urban Construction Company a subsidiary of the SLDC which is in charge of the land clearance, he outlined the relocation of the site Z 4-1.

On the site Z 4-1, there were 834 households and 41 work units. Picture 8.9 shows rows upon rows of 70s style residential flat buildings in the site Z 4-1. In October 1997, Minoru Mori came to see the progress of land clearance which was just started a month ago. He doubted very much that the SLDC would complete in three months what would take years (even decades) in Japan. In company with Minoru Mori, the then general manager of the SLDC Wang Ande assured Mr. Mori that the land clearance would be finished as scheduled or the SLDC would pay RMB 380,000 for each day delayed in accordance with the contract. The majority of residents were very cooperative except one man who was forced out by the court in 10 December 1995. A miracle maybe in Mori's eye, the clearance of the site Z 4-1 was completed on 22 December 1995. A cleared Site Z-1 is shown in the Picture 8.10 (the lawn next to the Jingmao Building). In the interview with Mr. Yamada, he highlighted how surprised he was by the swift clearance of the site Z 4-1: "It would take 500 years in Japan to relocate the residences and clear the land." Seeing I was surprised by the words "500 years", he stressed:

"I am serious. It needs 500 years in Japan. That is one thing I think Japan needs to learn from Shanghai. When I came back to Tokyo, I said many times to my friends and proposed to the government that there are many things we should learn from Shanghai, and urban renewal is one of them."

Starting in the mid-1990s, there was an objective that the special treatment towards foreign investment would be gradually replaced by policies that treat national enterprises and foreign-invested enterprises equally. In September 1995, the Chinese Customs Authority issued a policy whereby the old policy that foreign-invested enterprises could import self-use materials with zero tariff would end by the end of

Picture 8.9 Site Z-1 Before the Relocation



Picture 8.10 Site Z-1 (the lawn next to the Jin Mao Building) After the Relocation



1995. This meant a huge increase of cost in the construction of the super high-rise building in the site Z 4-1, which would rely heavily on imported materials and facilities. Forest Overseas Co. Ltd. immediately sent a letter to the SMG asking that the project could enjoy the tariff-waiver policy till the completion of building as written in the contract between Forest Overseas Co. Ltd. and the SLDC. Considering the importance of this 96-storey building, the SMG tried its best to cooperate with the company. Because it was beyond the power of the SMG, the SMG made a direct request to the State Council asking for a special consideration. Finally, Premier Zhu Rongji, who was the mayor of Shanghai before being promoted to the central government, made a personal instruction allowing Forest Overseas Co. Ltd. to continue enjoying the tariff-waiver policy. Meanwhile, the PNAA signed again an agreement with Forest Overseas Co. Ltd. assuring that the project would enjoy the preferential policies pledged by the SMG.

8.7 The project-based, implicit pro-growth coalition

In the development of LCFD, we have seen that there is a convergence of interests between the local government and international capital. The SMG is keen to revitalise Shanghai as China's major financial centre by launching the development of LCFD, and international developers such as the Japanese Forest Building Company, attracted by China's potential market, switch their capital into the property development in LCFD. Both interests rely on the growth of LCFD. In pursuing this common objective, they form what can be called a project-based, implicit pro-growth coalition.

This Chinese-style "interest coalition" of the local government and international capital is different from American-style "growth machine" politics. In America, local business communities are well organised. They are "mobilised interests" (Fainstein, Fainstein, and Armistead, 1983: 214). Local business people are the major participants

in urban politics, particularly business people in property investment, development, and real estate financing (Logan and Molotch, 1987). Through continuous interaction with local politicians including substantial political campaign contributions, their interests are well integrated in the decision-making procedure of urban development. Often, the leading politicians come from the local business community (*ibid.*). In China, politics are still monopolised by the Communist Party. Local social organisations independent from the Communist Party are barely allowed. International capital, although very influential, is not institutionalised into China's urban politics. Therefore, unlike the American-style pro-growth coalition that is formal, official and well integrated, the interest coalition found in the LCFD is project-based, informal and temporary.

However, this implicit coalition, once formed, is very powerful and even more so than its American counterpart. In the case of LCFD, we have seen that this coalition demonstrated its formidable ability and performed very well in transforming the urban form of LCFD. The SMG organised the planning consultation process which involved four internationally renowned firms with “global vision” in mind. To implement the plan, the SMG and the PNAA managed to raze the whole area, relocate hundreds of enterprises and tens of thousands of households, clear the land and provide a modern infrastructure. International investors, attracted by China's huge market potential, stepped in. Dozens of international standard office buildings which are mainly funded by Hong Kong, Taiwanese and foreign developers and designed by internationally renowned architects have sprung up in the LCFD. This model of urban redevelopment, exemplified by the case of LCFD, is very illustrative of a general pattern of interaction between the state and capital which underlay hundreds of redevelopment projects across Shanghai in 1990s (see section 7.3.2). It is this project-based pro-growth coalition that has been rapidly and relentlessly transforming Shanghai's urban form.

Chapter 9

CONCLUSION

9.1 Main findings

In this thesis, Shanghai's dramatic urban restructuring in the post-reform era has been examined within a revised theoretical framework of Urban Political Economy - one that treats the role of the state as an independent factor in shaping urban patterns rather than derivative of economic processes (capital accumulation) – a view held by many urban political economists. From the perspective of this urban political economy, the thesis has attempted to construct an explanation of Shanghai's urban change combining the two underpinning factors - the state and capital. This explanation has been established by focusing on the interaction of the state and capital -- the state-capital relationship that has underlain Shanghai's urban change to date. The introduction of the state-capital relation led to an understanding of Shanghai's urban change in a broader context both historically and geographically. Historically, the development of Shanghai has been traced back to the 1840s when Shanghai was forced to open to western trade and residence. Geographically, the understanding of Shanghai's urban change has been approached in terms of both the national and international settings.

The thesis started by proposing four key questions in the chapter of Introduction. To conclude, I would like to sum up the main findings under the heads of these four questions.

1. Why is the state-capital relationship the most appropriate approach to the understanding of Shanghai's urban development?

Shanghai's development can be ultimately attributed to two factors: state activities and capital dynamics. These two factors have for more than a century been inextricably interrelated in shaping Shanghai's urban patterns. In many ways, the

history of Shanghai's urban development is a one of conflict between the state and capital over the control of Shanghai. With the year of 1949 as the watershed, Shanghai's modern history can be divided into two broad eras. Prior to 1949, Shanghai's urban pattern was basically shaped in accordance with capitalist logic with an increasing challenge from the Chinese state. Since 1949, Shanghai's development has been basically determined by state activities with the growing importance of capital dynamics. Based on the waxing and waning of the role of the state and capital, the thesis identified six key relationships of the state and capital which underlay Shanghai's urban development in six different historical periods.

One intriguing finding from the analysis of these six periods is quite anti-state-intervention, that is, the less state intervention, the more rapid Shanghai's urban development. The golden age of Shanghai in the early 20th century was brought in by capital, particularly international capital with virtually no intervention of the Chinese state. Shanghai's vitality was subsequently strangled and its position as the major economic centre in the Far East was lost under state socialism when the state alone was responsible for Shanghai's urban development. The revitalisation of Shanghai since 1978 resulted from the rise of the new state-capital relationship -- the retreat of the state and the reintroduction of international capital. This new state-capital relationship was carefully ushered in by the Chinese government. The state is still in control of Shanghai's urbanisation process, and state activities are the decisive factor in shaping Shanghai's urban pattern.

The dominant role of the state in Shanghai's urban redevelopment, shown in Shanghai's mega-project of the development of Pudong New Area, challenges the widely accepted theory of urban entrepreneurialism, which views (global) private capital playing an increasingly dominant role in the shaping of urban development while the local state is reduced to a subordinated and disadvantaged position. This theory of a subdued state in recent urban restructuring driven by global capital imperatives rests mainly on studies of Anglo-American cities. Critics of the theory have focused on the fact that many of these studies treat city governments as no more than economic agents responding to the intensifying inter-city competition and they fail to consider the capability of the local state in resisting the pressure of global

economic forces as well as its role in shaping national urban systems and urban competitiveness.

The theory of urban entrepreneurialism is particularly limited in interpreting Shanghai's current urban restructuring. Like many Asian economies such as South Korea, Japan, Taiwan and Singapore, the developmental state in China (both central and local) introduced by reform policies has been playing a key dominant role in promoting economic growth and shaping Shanghai's urban patterns. This can be seen in the design and planning of Shanghai's urban development strategies, organisation of the large scale urban spatial planning, setting up of state-owned land development corporations like SLDC, and the massive relocation of urban residents in city core areas.

China's market-oriented reforms have substantially changed the dynamics underpinning Shanghai's urbanisation process. State-centred approaches that exclude capital imperatives have been insufficient in understanding Shanghai's urban transformation. However, capital-focused approaches like the urban entrepreneurialism perspective that suggests a homogenous entrepreneurial city emerging mechanistically from global economic forces are equally inappropriate in interpreting urban restructuring of a city where the state has been dominant for decades. Being increasingly integrated with the world capitalist economy, Shanghai has felt the power of global capital that expands relentlessly to engulf the whole world – a phenomenon referred to as globalisation since the 1970s. However, globalisation does not produce homogenous urban patterns across the world as some urban researches suggested. Global economic forces have to be mediated by varying local factors and conditions such as different national regulation systems and local political cultures before they are manifested in the urban landscape.

Neither state-centred approaches nor capital-focused approaches are sufficient in interpreting Shanghai's current urban restructuring. An approach combining two ultimate factors in determining Shanghai's urban development – state policies and capital dynamics – is needed to understand appropriately the production of Shanghai's new urban landscape. This approach – termed the state-capital relationship approach in the thesis – views Shanghai's current urban restructuring as

neither solely internally induced as it was in the pre-reform era nor solely externally driven by global capital, but the outcome of the interaction of the state and capital, and of the interaction of global and local processes. This state-capital approach is historical. It provides an excellent theoretical framework for the understanding of the urban change of a city like Shanghai that has experienced a variety of different political economy systems. It is also culturally sensitive, because it focuses on the human dynamics and social relations in understanding the formation of Shanghai's urban growth coalitions.

2. How has the emergence of the new relationship between the state and capital transformed the dynamics of Shanghai's urban development in the post-reform era?

The emergence of the new state-capital relationship rendered by China's market-oriented reforms since late 1978 has been analysed in the thesis within the framework of developmental state theory. The market-oriented reforms have brought China closer in many ways to the developmental state model that was originated and well developed in East Asian newly industrialised economies such as South Korea, Taiwan, Hong Kong and Singapore. Twenty years on, China's ownership structure has been changed to the extent the Chinese economy is now virtually a mixed economy in which the state sector continues to decline. In 1998, China's private sector contributed 33% of Chinese GNP while state sector contributed 37% and the mixed-owned sector 30%. Fundamental changes occurred in the balance between state planning and markets. By the early 1990s, China's price reform based on the dual-track approach had been successful. While the plan had been phased out for production and allocation of most goods, a market-based price system had been successfully established. The state has retreated considerably from the economy, and state agencies became more likely to behave in the way their western counterparts did.

China's reform is, however, gradual and partial. While it has changed the state-capital relation (the developmental aspect of the state), the state-party relation (the political aspect of the state) remains intact. China is still a one-party state in which the Communist Party monopolises politics. The partiality of China's reform gave rise

to what has been referred to as a “half-way house” in which the new and the old developmental states and economic systems are intertwined.

Associated with the changing relationship between state and economy has been a major shift of economic power within the state: the decentralisation of power from central to local government at the provincial level and below. Since reform, local governments have been given more autonomy, among which fiscal reforms have been particularly important in redefining central-local relationships. Fiscal reforms, both the revenue-sharing system (RSS) and the tax-sharing system (TSS), gave local governments more power over their revenue and spending, and perhaps more importantly, gave them a great incentive to develop local economies and the wherewithal to do it. Meanwhile, local governments now enjoy property rights in the management of state-owned enterprises and local land. City governments are the *de facto* owner of the land under their jurisdiction.

Shanghai's relation to the national government is historically unique and decisively important in Shanghai's urban development. The city's prosperity and well-being in the pre-1949 era thrived on its relative independence from the Chinese national government. The communist victory in 1949 ushered in a new era of Shanghai's relation to the central government, in which Shanghai was gripped tightly by the central government due to its importance in China's political economy. The situation did not change even in the 1980s when the policy of decentralisation proceeded nationwide. In 1980, when the fiscal reform of RRS was introduced, Shanghai was treated differently. While Beijing and Tianjin were allowed to keep about 30% of their revenue for local spending, Shanghai was only able to retain a little over 10% of its revenue. To a great extent, Shanghai's rearguard position in China's reform strategy and the Centre's tight grip of Shanghai resulted in Shanghai's rather modest growth in 1980s, when southern China, particularly Guangdong, surged ahead in economic development.

Shanghai's reinvigoration did not come until 1990 when the central government chose Shanghai as the launching pad for furthering China's reform. The role of Shanghai in China's reform strategy was changed from a rearguard into a forefront player. In April 1990, Shanghai received a package of special policies from the

Centre for the development of Pudong – a mega-project having been lobbied hard by the municipal government to get the Centre's endorsement. Soon afterwards, Shanghai was given an official mission to develop as a “dragon head and three centres” to lead the Yangzi River Basin and China at large into the twenty-first century.

The emergence of China's new state-capital relationship, and Shanghai's shifting relation to the Centre that goes with it, have had a profound impact on the dynamics of Shanghai's urban development. The impact has been analysed in the thesis from three interrelated aspects: 1) investment source; 2) development organisation; and 3) urban planning system.

The sources of finance for Shanghai's urban development have been dramatically diversified since the reform. The state budgetary appropriation, which used to be the main source of finance, has decreased rapidly, while self-raised funds (SRF) and foreign investment have increased their proportions drastically. In 1997, SRF and foreign investment accounted for 46.1% and 15.8% of Shanghai's total investment in fixed assets respectively, while the share of the state budgetary appropriation was only 1.4%.

SRF is collected and used outside the control of conventional economic planning. The fund-raisers – usually local governments and enterprises – can decide the use of the funds without the approval of the Central Planning Commission (CPC). Thus, the dramatic increase of SRF means the shrinkage of the “plan track” economy and the rise of local government as the key player in urban development.

In the pre-reform era, associated with the centrally planned economy, China's urban land development was sectoral based, project-specific development. The reform has transformed this system into a market-oriented, horizontally-controlled one by introducing a *de facto* land market. Along with the market-oriented reforms, the Chinese government introduced a paid transfer system of land use rights, in which the land use right was separated from the ownership of land *per se*. While the state remains the owner of land, use rights of land can be sold, assigned and transferred. In practice, city governments were empowered as the *de facto* managers of state land

under their jurisdiction, who managed the pragmatic land leasing system. The city governments that used to have little say on their own land allocation could exert decisive influences in the shaping of urban patterns.

The introduction of the land leasing system effectively created a *de facto* land market system across the country's urban areas, in which Shanghai was a pioneer in many ways. Since then, a high proportion of land in Shanghai has been put onto the market. The new method of land development, i.e., market-based real estate development has risen rapidly to take the place of the sectoral based, project-specific development, although the latter is still the major way of acquiring urban land for governmental sectors and SOEs.

Associated with the diversification of finance sources and the reorganization of urban land development is the rise of the new role of urban planning. Prior to the reform, the project-specific land development resulted in the subordinate role of urban planning to the top-down economic planning. This status of urban planning has been changed by a series of government policies and legislative measures since the reform, among which the Regulation of Urban Planning issued in 1984 and the Urban Planning Act (UPA) in 1989 were the most significant. According to the UPA, all development projects must first submit their proposals to the municipal planning authority for "site selection permissions". City governments have since had the real power in the process of urban planning, and urban planning has become the cities' physical control apparatus, whose main function has been to serve their economic development.

3. What aspects of Shanghai have been restructured since the new urban development dynamics was brought in by the Chinese reforms?

The Chinese reforms, and the new urban development dynamics that they brought in, have been rapidly restructuring Shanghai's economic base, spatial morphology and social fabric. Closely associated with Shanghai's general economic development, two periods can be identified in terms of the pace of Shanghai's urban restructuring with 1990 as the turning point. Prior to 1990, Shanghai's urban restructuring was

modest. Its pace has been dramatically quickened since 1990 when Shanghai was brought to the forefront of the Chinese reform by the central government.

The restructuring of Shanghai's economy has been mainly reflected on its ownership structure and its sectoral structure. In terms of ownership structure, Shanghai has been transformed from a state-ownership dominated economy into a mixed economy with a rapid expansion of the non-state sector, particularly the foreign-funded sector. In 1998, Shanghai's GDP reached RMB 368.8 billion of which 283.8 billion was turned out by the state sector (including the collective sector) and 85 billion by the non-state sector. While state sector's share of Shanghai's GDP has shrunk rapidly, the non-state sector's share has increased dramatically from just 1% in 1978 to 23.1% in 1998. Within the non-state sector, the expansion of the foreign-funded enterprises has been the most significant. In such economic sectors as the industry, the foreign-funded enterprises have become the biggest sector in terms of gross value of industrial output.

Alongside the transformation of Shanghai's ownership structure, Shanghai's economic has been restructured from an industry-dominated one towards a more service-oriented one. In the period 1978-97, the growth of Shanghai's tertiary sector, compared with that of other economic sectors, was the most rapid with its annual growth rate of 14.3%. As a result, the tertiary sector's share of GDP increased from 21.1% in 1980 to 45.5% in 1997, while the industry's share dropped from 75.7% to 52.2%.

A profound change in Shanghai's economic restructuring has been the rapid rise of producer services within the tertiary sector. Shanghai's tertiary sector used to be dominated by consumer services such as the wholesale, retail, catering and the like. This consumer service oriented tertiary sector has changed dramatically since the reform. Producer services those produced mainly for firms rather than individuals such as banking, insurance, real estate, legal services and so on expanded rapidly, while consumer services continuously contracted in relative terms. The banking and insurance sector the core components of producer services grew into the biggest sector in value terms within Shanghai's tertiary industry with its share increasing from 11.9% in 1980 to 30% in 1997. The rapid rise of producer services had

profound implications for Shanghai's economic development. The producer service sector produces the economic control capability. The rapid development of producer services indicates that Shanghai's capability of controlling economic activities has been greatly strengthened, and so has its position as a regional economic centre.

FDI has played an increasingly important role in Shanghai's economic development as well as the transformation of Shanghai's economic structure. Foreign-funded enterprises have become the most vibrant part of Shanghai's economy. The influx of FDI into producer services since 1990 has contributed greatly to the transformation of Shanghai's tertiary sector.

Spatially, Shanghai has undergone even more dramatic transformations. Market-oriented reforms transformed the way the city's land was developed, the emergence of a land market gave rise to a land rent gradient, which made possible urban spatial differentiation. The mixed land use pattern was broken down and a new spatial structure based on the market system started to emerge. Work-unit based, self-contained communities stemming from the project-specific development method gave way to commercial housing built in clusters, which were differentiated from industrial areas. Factories that used to be located in the city centre could no longer afford the rising price of land use right and moved out into the edge of city, where tracts of land were available. In place of factories and run-down areas, modern, stylish office buildings and luxury housing sprouted. Hundreds of skyscrapers clustering in Shanghai's prestigious areas such as the newly developed LCFD has dominated Shanghai's skyline.

Given the fact that only housing built on the leased land can be sold on the market, the development of land leasing system determines, to a great degree, the pace of Shanghai's spatial restructuring and the extent to which Shanghai's urban patterns have been reshaped. The land lease scheme was initiated in 1988. At the beginning, only the foreign-funded enterprises (FFE) needed to lease the land, while SOEs still enjoyed the privilege of free land allocated administratively. The pace of land leasing has been dramatically quickened since sub-city governments were empowered to manage the leasing of land located in their districts in 1992. Meanwhile, more and more domestic enterprises including SOEs were required to acquire the land through

the market channels. By the end of 1998, a total of 4581 pieces of land with an area of 145 million square metres had been leased. Of these 145 million square metres, some 117 million square metres (more than 80% of the total area of land leased) were leased to the FFEs. The figure points to the increasingly important role of FDI in the restructuring of Shanghai's spatial morphology.

Two decades of Chinese reforms have also led to a dramatic restratification of Shanghai's social fabric. With the ditching of socialist egalitarianism, Shanghai's income structure has become increasingly polarised. The growing income inequality has been closely related to Shanghai's economic restructuring. The rapid expansion of the non-state sector (particularly the FFEs) has made the market-based wage system the norm while the old egalitarian-based wage system has been phased out with the shrinking of state sector. Economic sectoral restructuring has, on the one hand, led to the rise of producer services with a professionalised workforce whose income has been growing the most rapidly compared with those in other sectors. On the other hand, sectoral restructuring has downgraded traditional industries such as textiles where people's real earnings have contracted.

One intriguing finding of Shanghai's social restratification is that both the richest and poorest are non-Shanghainese (not officially registered local residents) who are excluded from official statistics. On the one hand, we have seen that the extremely high paid "transnational elite", most of whom are foreigners alongside those from Hong Kong, Macao and Taiwan, have come to form Shanghai's top social spectrum. On the other hand, we have seen that millions of domestic migrants now occupy the bottom of Shanghai's social spectrum.

4. How does the new state-capital relationship manifest itself in the concrete process of Shanghai's urban redevelopment?

The reforms have been changing the relationship of the SMG and non-public sectors. Although public ownership is still one of the main forms in Shanghai's economy, the non-public sectors, particularly the foreign-funded sector, have been growing rapidly. The ownership restructuring of Shanghai's industry is a case to the point. By 1997, foreign-funded enterprises had become the biggest part of Shanghai's industry with

its share of total gross output value reaching 38.9%, comparing with SOEs' 30.1%. It is clear that the public sector no longer dominates production in Shanghai. The municipal government has to seek partners from non-public sectors in making development decisions. As a result, a pro-growth coalition composed mainly of the local government and international investors has emerged. While this pro-growth coalition bears similarities to the one in the United States in many aspects, the difference between these two coalitions are significant due to different political economic systems.

The similarities lie mainly in the economic dimension of coalition building. Over twenty years market-oriented reforms have transformed Shanghai's economic system into a market-based one, and the non-public sector has become the major part of Shanghai's economy. As its American counterpart, the SMG has to build partnership with the rapidly growing non-public sector that holds significant economic resources.

The most important difference between coalition building in the United States and China lies in the political dimension of coalition building. In liberal democratic societies such as the US, political legitimacy is achieved through public election and shown in public power. Business communities are well organised in liberal democratic countries, and more often than not, they are the most influential interest groups in shaping the local political contour because of their role as the resource controllers. It is politically necessary for local politicians to build coalitions with business groups in order to win public elections. China's reform is gradual and asymmetrical. With its socialist political institutions unchanged, public election is not the way to give legitimacy to the government. Chinese officials, from the president to mayors, are not elected but rather are assigned through a complicated political system that is controlled by the Communist Party. As a result, the political dimension of pro-growth coalition building is weak in Chinese cities, which contrasts to the practice in U.S. cities. International capital, although very influential economically, is not institutionalised into China's urban politics.

China's unchanged authoritarian system has also led to a weak community power in urban politics. Although community power is weak in U.S. cities due to the lack of control over resources, the public election gives it a political leverage whereby it can

affect voters' choice, and as such, indirectly gain its influences in the decision-making of urban development. In urban redevelopment, various groups such as environmentalist organisations, racial organisations and community organisations against displacement contribute to prevent the "growth machine" from going too fast, although they are often unsuccessful. With no election power to leverage government officials, community groups have never been members of the pro-growth coalition in Chinese cities. In fact, social organisations independent from the Communist Party are barely allowed. Party politics is virtually absent in Chinese society, and civic society is still in an inchoate state. As a result, while the vast majority of the populace is united by the goal of growth, the opposition voice is silenced.

In a word, the new state-capital relationship induced by China's reforms is manifested in a form of pro-growth coalition in Shanghai's concrete process of urban development. It is a pro-growth coalition with Chinese characteristics. Unlike the American-style pro-growth coalition that is formal, official and well integrated, the Chinese-style pro-growth coalition found in Shanghai is informal, implicit and project-based.

However, this implicit coalition, once formed, is even more powerful than its American counterpart. Apart from the political situation, which prevents people from opposing the pro-growth strategy, the strength of this pro-growth coalition lies also in China's peculiar land ownership system. The Chinese reforms separated the use right of land from land ownership per se. This separation enabled the establishment of a quasi land market while keeping the state ownership of land intact. Thanks to the state-owned land system, the SMG, empowered as the *de facto* manager of the land under its administration, can forcibly remove the existing residents from their housing and communities in order to clear the land for urban renewal. Land clearance is usually the most daunting and time-consuming job confronting inner city redevelopment in western cities, due to the privately-owned land system. With the problem of land clearance being solved relative easily by the SMG, Shanghai's urban redevelopment, funded increasingly by foreign investors, is much quicker than that in western cities and the displacement involved is much more intense.

A central aim of the thesis has been to explore the ways in which the relationships between state and capital were established and dynamised in the concrete process of Shanghai's urban redevelopment. Drawing in part on interviews, the thesis shows that specific cultures of interaction and patterns of engagements between the SMG and foreign investors can be characterised by a process of learning.

The Chinese reforms introduced international capital into Shanghai's urban development that had so far been driven solely by the Chinese state. Having not met for three decades, foreign investors and the SMG quickly formed an interactive relationship, in which both sides were keen to learn how to deal with each other. Foreign investors learned hard in order to get things done in Shanghai – a city which was administrated by a communist regime and which had been widely regarded as the gateway of the Chinese market. Separated from the world capitalist economy for 30 years, the SMG made great efforts to learn how to do things in accordance with international rules in order to attract more foreign investment, which had become increasingly crucial for the local economic development. When both learned there was an interest convergence in such urban redevelopment project as the development of LCFD, they could work together and form a pro-growth coalition.

In the case of LCFD, we have seen that this pro-growth coalition demonstrated its formidable ability and performed very well in transforming the urban form of LCFD. The formation of this pro-growth coalition, exemplified by the case of LCFD, is very illustrative of a general pattern of interaction between the state and capital in hundreds of redevelopment projects across Shanghai in 1990s. It is this pro-growth coalition that has been rapidly and relentlessly reshaping Shanghai's urban patterns.

9.2 Implications for future research

Urban change is a research subject that involves a range of issues whose full understanding demands an approach that is highly interdisciplinary. Four years research (one year in Hong Kong and three years in London) may have only allowed me to tackle the tip of an iceberg. However, four years work on this research have

also enabled me to realise how big this "iceberg" is and identify a future research agenda that includes various issues each of which can be an independent research subject.

1) Nationalism and urban development

Shanghai's unique history of urban development (from colonialism to capitalism to socialism to post-socialism) makes it an excellent place to explore the relationship between nationalism and urban development. Nationalism played a very important, and sometimes critical role in the formation of every state-capital relationship which underlay Shanghai's urban development in different historical periods. Shanghai's fate has been closely related with the development of the Chinese nationalism since Chinese nationalism set its modern roots in Shanghai.

Paradoxically, Shanghai's development has appeared to be at odds with nationalism. The colonialist "Shanghai model" contained at its outset a fatal seed - the Chinese nationalism which grew up with the development of Shanghai and finally destroyed the very model that had transformed Shanghai so successfully from an imperial town into a cosmopolitan city. While colonialism is morally unacceptable, what this model stands for - the maximum relation to the world capitalist economy and minimum state intervention - has proved crucial for Shanghai's development. From 1949-1978 when Chinese nationalism descended into a form of xenophobia and when Shanghai had a minimum relation to the world capitalist economy and maximum state intervention, Shanghai was transformed into little more than China's industrial centre and lost its position as a major economic centre in the Far East.

Shanghai's rapid development in the post-reform era has take place precisely because the reforms have taken Shanghai back to the essence of the "Shanghai model". The difference, it seems to me, lies in the fact that this time the Chinese took the crucial step by themselves rather than it being imposed by the external force.

2) Political implications

The historical review of Shanghai's development and particularly of the state-capital relationship has significant policy implications for Shanghai's urban development in the years to come. China's market-oriented reforms and open door policies have led to the emergence of a new state-capital relationship, which underpinned Shanghai's post-reform revitalisation. China's reform has been gradual and partial, which resulted in a half-way house situation in terms of political economy. In spite of this half-way house situation in which a completely new state-capital relationship remains to see, Shanghai's rapid development has shown that the direction of China's reform – the retreat of the state and the introduction of capital is revitalising the city. Shanghai's post-reform resurrection bore testimony to the success of the historical "Shanghai model" in promoting Shanghai's development and prosperity, despite the differing political situations.

The establishment of a state-capital relationship that will be fundamentally conducive to Shanghai's urban development requires further redefinition of the Chinese state, particularly its political aspect. This will be a greater challenge facing the Chinese government, which has embraced full integration with the world capitalist economy while reluctant to undertake political reform in fear of the political instability. To a great extent, China can be seen to have moved from a plan-ideological state to a plan-rational/developmental state in terms of Dicken's four categories model. Differing from other developmental states, whose plan-rational economies are guided by market-rational political institutions, China's economy is controlled by a government that is still dominated by the communist party. Where China will go from a plan-rational state will depend on its political reforms, which have been speculated widely both at home and overseas. Although the political issue is not the focus of this research, the thesis has shown that significant political implications can be explored from the history of Shanghai's urban development. It will be of great interest to explore the direction of the national political and economic reforms by investigating a city's history of urban development.

3) Theoretical application

The thesis has shown that neither state-centred approaches nor capital-focused approaches are sufficient in interpreting urban restructuring of a city in a transitional society such as Shanghai. It has also shown that the state-capital relationship approach that combines both state policies and capital dynamics provides an excellent theoretical framework for the understanding of Shanghai's urban changes. Whereas Shanghai's urban development is a special case, its application to other cities is worthy of further study. While it can be argued that the state-capital approach is more or less applicable to other Chinese cities due to the same political economy, empirical evidence is needed to support this argument. International application of the state-capital approach would be an even more interesting research agenda. Cities with a similar colonial past in the third world such as Saigon, Bombay and Hong Kong appear to fit in this state-capital inquiry. The application of this approach to cities in transitional economies such as East European countries would be of particular interest because of the comparability between them and Shanghai.

4) Social space

The social implications of Shanghai's urban restructuring are less explored in the thesis. Among these, social space is of particular interest. A new form of social space in urban China has gradually developed alongside the rise of socio-economic inequalities entailed by China's market-oriented reform. Although it is a very much under-explored area in China (partly due to the sensitive issues involved, partly due to the lack of statistics which makes this empirically-demanding research more difficult), scholars (eg. Cui and Wu, forthcoming) have started to look into such issues as spatial segregation and residential differentiation. Shanghai's post-reform social restratification has been inevitably translated into urban space. Since 1990, Shanghai has seen the re-emergence of spatial segregation, with suburban villas and upper class housing near the central business district, on the one hand, and marginal neighbourhoods of the urban poor and migrants, on the other. Apart from the cause of this spatial segregation, an empirically-intensive approach would enable us to identify the social characteristics of these two groups – education, occupation, earning, gender, age and so on.

5) Changes in the urban system

Shanghai's rapid development has raised implications for the urban system at the regional, national and international level. Has Shanghai's increasing integration with the world economy strengthened Shanghai's position as the regional economic centre? If so, to what extent and in which ways? To what extent has the rapid rise of Shanghai affected the national urban system? And with the reinvigorating of Shanghai, a frequent question is whether Shanghai will overtake and replace Hong Kong – a question that drew wide attention years before Hong Kong's return to China in 1997. Two contrasting positions may be summarised concerning the relative roles of Shanghai and Hong Kong in the years ahead.

One group of scholars focus on Shanghai's advantages: an unrivalled geographical position in the Yangzi River Basin and beyond, a huge hinterland, a strong science and technology base stemming from its numerous universities and research institutes, and a diversified and balanced economy. They assert that Hong Kong's position will be replaced by Shanghai (e.g. Robwer, 1995; W. H. Chan, 1993). Among these assertions, Robwer's (1995) vision of Shanghai's future is clear:

Sometimes in the first decade of the 21st century it (Shanghai) will displace Hong Kong as China's main financial-service centre and shortly after surpass Tokyo as the most sophisticated and open financial market in the East Asian time zone – and so join London and New York as one of the indispensable big three of world finance.

While some of Hong Kong's functions may be taken over by Shanghai, Robwer's assertion is probably an overly optimistic projection of Shanghai's future. Hong Kong has advantages that Shanghai lacks: a natural and deep-water port, highly developed financial institutions, world-wide trading connections, and a sound legal system. Taking into account two cities' distinctive strength and weakness, another group of researchers have come to a more realistic assessment of Shanghai's future in relation to Hong Kong (e.g. Wong, 1996; Sung, 1996). Sung (1996), for example, foresees Hong Kong as China's foremost port and a centre of foreign trade for a long time to come, and Shanghai as the domestic financial centre of China, with Hong

Kong remaining a regional and international financial centre. Rather than seeing one city replacing the other, some people perceives Shanghai and Hong Kong metaphorically to be like the eyes of a dragon, which will spearhead China's rapidly growing economy into the 21st century (e.g. Lee, 1994; J. Z. Huang, 1995). This metaphor of the eyes of a dragon has been adopted by the Chinese government as its official position regarding the question of Shanghai vis-à-vis Hong Kong in the years to come.

9.3 The future of Shanghai

On 11 November 1994, the Shanghai Municipal Government sponsored an international conference called "Shanghai Towards the 21st Century". The strategies of developing Shanghai into the international economic and financial centre of China in the 21st century were discussed and a report under the same title was published (Cai, 1995). The report highlights the key development objectives to be achieved by the municipality by the year 2010. They are:

- A total urban area of 6,300 sq. m. with a multiple-centre, multiple-function megalopolis.
- A GDP of RMB 150, 000 per capita is to be achieved by 2010, with an average annual growth rate of 11.4% between 1995 and 2000, and 9.8% for the first decade in the next century. This will bring to fruition the targeted GDP of RMB 2,000 billion.
- A tertiary-oriented economy with an emphasis on finance, trade, information exchange, the service sector and attracting multinational corporations to set up regional headquarters in Shanghai.
- A total population of 14 million (with an additional 4-5 million "floating population"), meaning an urbanisation level of more than 80%.
- Restructuring urban land use with a 5 sq. km new City Business Centre which spans the Bund and the Lujiazui area.
- Infrastructure development that includes a modern highway system, port facilities and a new international airport at Pudong. (Chan, 1996: 306)

These targets were regarded as essential for Shanghai to catch up with other international metropolitan cities in East and Southeast Asia in the coming decade. Since then, Shanghai has fared quite well in terms of achieving these targets. From 1995-1999, it achieved an average 12% annual growth rate of GDP (SSB, 2000). In 1999, its GDP reached RMB 403.5 billion. Meanwhile, Shanghai's economy has

become increasingly tertiary-oriented. In 1999, the added value of tertiary industry reached RMB 200.1 billion with its share of GDP surpassing that of secondary industry for the first time (49.6 : 48.4). The finance and insurance sector has become the most important sector within tertiary industry and its share has increased to 29%.

The year 1999 was very special for Shanghai. Fifty years ago, Shanghai was "liberated" from bureaucratic capitalism, imperialism and its compradores by the People's Liberation Army and became "a truly prosperous new peoples' city" (China Digest, August 10, 1949: 10, cited in Murphey, 1953: 27). Fifty later, it was chosen by Fortune magazine as the place for its annual Fortune Global Forum. Lavishly opened by Chinese President Jiang Zhemín in the newly completed Shanghai International Convention Centre located in the LCFD, the Forum on the theme of "China: the Future 50 years" was claimed as "the most successful global CEO conference in our history" (*Fortune*, 8 November, 1999). Over 60 CEOs from Fortune-listed World Largest Corporations attended the Forum, including Jack Welch of GE, Jacques Nasser of Ford, Doug Ivester of Coca-Cola and Roger Enrico of PepsiCo. International celebrities like Henry Kissinger, Lee Kwan Yew, Robert Rubin, Michael Dell and Ted Turner addressed the conference. Shanghai seemed to return to its golden age of the early 20 century when it attracted international capitalists from all over the world. However, "Shanghai has not come full circle", as Murphey (1988: 181) reminded us in the late 1980s:

The revolution has made a permanent change, but the radical decades are over, and the city's character and function are again being shaped by circumstances, location and vital role it can perform for the new China.

Murphey was right. Shanghai's dramatic transformations in the past two decades have been due to new circumstances brought in by China's reform and open door policies, in which the city's favourable location and vital role in China has been utilised by the Chinese state and international capital. While the future of Shanghai is still an open question, it is beyond doubt that the three major actors – the central government, the local government and international capital will continue to play decisive roles in shaping the future of Shanghai.

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Appendix 1

With great thanks, I list below the people I interviewed in Shanghai in 1999 and 2000. However, the list is not complete because it excludes those who wish to remain anonymous.

1. Shanghai Lujiazui Development (Group) Co., Ltd. (SLDC)

Kang Huijun	General Manager
Wu Chen	Secretary to General Manager
Yang Jianyi	Manager of Planning Division
Zhuang Ling	Deputy Director of General Office
Yan Nanhai	Deputy Manager of Business Division
Xu Jing	Business Division
He Hong	GIS Officer, Business Division
Yao Jianliang	Photographer

2. Shanghai Lujiazui Urban Construction and Development Company

Yang Chuancai	General Manager
Wang Ning	General Office

3. The Economic and Trade Bureau of Shanghai Pudong New Area

Sun Yeli	Deputy Director
Sun Yongqiang	Deputy Director of General Office
Liu Kui	General Office
Wu Jiwei	Director of Division of Development Zones
Yang Xiaohua	Division of Development Zones
Zhang Hao	Deputy Director of Division of Investment Promotion
Wang Xinling	Deputy Director of Division of Investment Promotion

4. Academia

Ning Yueming	Professor, The Institute of Western European and Northern American Geography, East China Normal University (ECNU)
Mei Anxing	Professor, Department of Geography, ECNU
Gu Donghui	Lecturer, Department of Sociology, Fudan University
Lu Hanlong	Director, The Institute of Sociology, Shanghai Social Science Academy
Chen Fang	Researcher, The Institute of Sociology, Shanghai Social Science Academy
Duan Gang	Editor, Shanghai Social Science Newspaper, Shanghai Social Science Academy
Xiao Gongqin	Professor, Department of History, Shanghai Normal University
Wu Fulong	Lecture, Department of Geography, University of Southampton

5. Miscellaneous people

Cheng Fan	Secretary to Deputy Director of Pudong New Area Administration
Wang Zhong	Shanghai Jin Mao Property Management Co. Ltd.
Zheng Xiaoxing	Editor, Shanghai Business News
Liao Mingtao	Shanghai General Trade Union
Wang Dezhong	Research Office, Shanghai Municipal Government

Appendix 2

Letter of Interview Request

Dear Sir or Madam,

11 May 2001

Re: interview for my PhD thesis

I am a PhD student in King's College London, currently writing my dissertation titled "The State, Capital and Urban Restructuring in Post-Reform Shanghai". One objective of my thesis is to find out how the Chinese local state (in my case, Shanghai government) and international capital interact, and how this interaction underlines Shanghai's urban restructuring in the post-reform era. In order to find out the nature of this interaction, I need to interview some foreign investors to investigate their experiences in dealing with the Shanghai government. Shanghai Pudong New Area Association of Enterprises with Foreign Investment (PAEFI), of which your company is a member, recommended your company for my interview. I hope that you will agree to my request for an interview.

Attached, please find the outline of interview. The interview will take about a half hour. I would like to stress that the confidence of the interview, and if you wish, your anonymity will be guaranteed. Given the permission, the interview can take place at the place and time of your choice. I can be contacted via PAEFI or directly by my mobile phone: 13916007179.

I hope that my research will contribute to the mutual understanding of the Chinese local state and international investors. Your kind help will be of great significance in completing my research.

I look forward to hearing from you soon.

Yours sincerely

William Zhengji Fu

The Outline of Interview

The interview will focus on the following four areas:

1. Locational choice

- 1) Why did you choose Shanghai to set up your enterprise?
(potential market, cheap labour, infrastructure, preferential policies, business service, etc.)

2. Pre-negotiation period

- 1) How did you begin your search? Were you directed to Shanghai or did you choose it? (through consultant company, internet, promotion activities, etc.)
- 2) Did you experience any difficulties searching for the information on investing in Shanghai?

3. Negotiation period

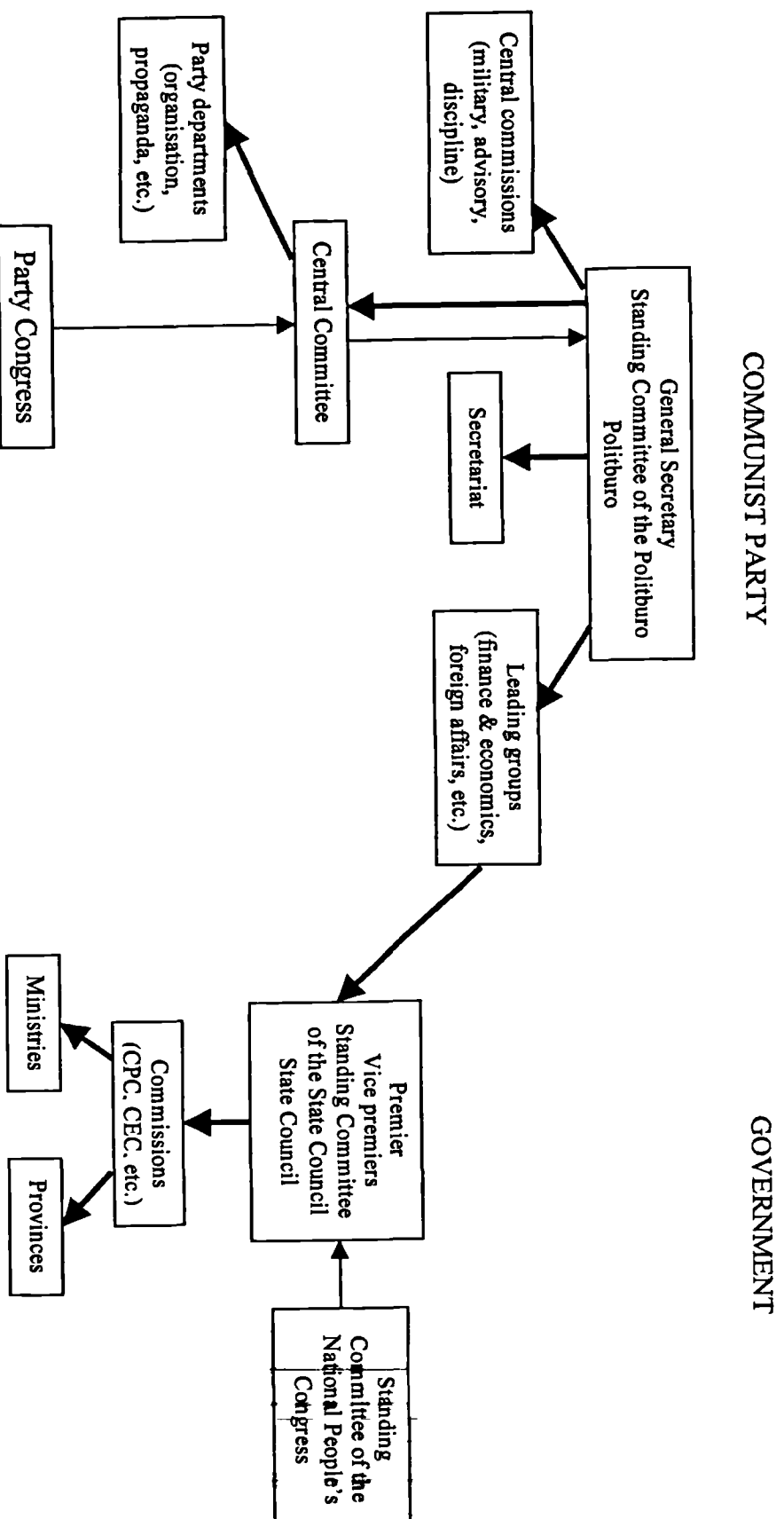
- 1) What were you seeking in Shanghai?
- 2) What procedures did you go through for setting up enterprise in Shanghai?
- 3) Who did you deal with?
- 4) In dealing with the local authorities, did you get everything you wanted?
- 5) What help did they offer you?
- 6) Did you find the way of dealing with the Shanghai government different from that in your country?
- 7) Did you experience any problems (or difficulties) dealing with the local government? If so, how were they resolved?
- 8) If you have other operations in China, did you find the experience in Shanghai easier than elsewhere in China?

4. Post-negotiation period

- 1) Are you happy with your decision to locate in Shanghai/Pudong?
- 2) Knowing what you know now, would you make the same decision again?
- 3) Have you tried to expand your existing plant? If so, any problem?
- 4) Did you find it easier to deal with the local government than it used to be?
- 5) Anything you want to be improved in Shanghai? (Could the local government be more helpful?)

Appendix 3

Formal Authority Relationships Among Central Communist Party and Government Institutions in People's Republic of China



Source: Shirk (1993)